The MAGAZINE of WALL STREET

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THE OUTLOOK

Good Progress In Business Readjustment—Bank Loans to Europe—Secretary Redfield's Plan—The Revenue Bill—Effect of Coming "Victory Loan"—The Market Prospect

IN the last issue the position of the stock market with reference to the long swings of prices was somewhat fully discussed. As supplementary to what was said there, it is of interest to examine the minor movements of the market since the armistice was signed.

These have been as follows for the average of fifty stocks: Down, 80.1 to 71.9; up, to 76.3; down, to 71.4; up, to 75; down, to 69.7; up, to 72.7; down, to 70.4 as this is written. This movement of prices seems to us to show very clearly the increasing resistance that is being encountered on declines. It is apparent that investors do not throw over their holdings as prices reach new low levels, but on the contrary stand ready to add to them. Therefore each succeeding downward swing finds buying orders waiting for it, so that but slight further progress in that direction occurs.

It has also been notable, in the case of the last two minor upward turns, that prices rallied more rapidly than they declined during the down-turns.

We do not mean to imply that such deductions from price movements might not be overturned by some new development of such importance as to overshadow technical conditions. But on the other hand, average prices are the most all-inclusive index of conditions as they now exist.

Some Important Beginnings

A NUMBER of developments during the past fortnight indicate that business readjustment is making steady progress and that the beginning of better things ought not to be very far away.

The most fundamental of these changes is the further fall of commodity prices. Copper at eighteen cents, for example, is cheap compared with other things. At that price it is 60% above the lowest rock-bottom level of 11.3 cents which was touched for a week or two in the profound depression following the outbreak of the war in 1914, while Bradstreet's index of commodity prices in general is still more than double the low level of 1914. It would certainly seem that any further fall in the price of copper must be merely temporary, unless other prices are to fall much more acutely than now seems possible.

In many other directions prices have registered considerable declines, and in some cases have shown a tendency to rebound from such breaks. That is true of food prices, in New York at any rate. The list includes pork, lamb, mutton, veal, fowls; and even eggs and butter, although normally declining at this season, have shown a disposition to rally. It remains to be seen whether this rally is more than temporary.

In general, declines in commodity prices as in stock prices have failed to induce any panicky liquidation. The evident reason is that in most lines there are no heavy stocks of goods on hand. Depressed sentiment can cause price declines but it cannot create the goods to be sold at those declines. There is a large stock of copper on hand and that is why the producers are willing to do business at a sharp recession. The Government still

has quite a stock of wool and some lumber, steel, etc., but these holdings are not being pressed on the market. There is a moderate accumulation of pig iron in the yards. But broadly considered, stocks of goods are everywhere light. Consumption, of course, has to go on, while production has been quite generally cut down. The point must be reached where actual demands will force buyers into the market and when that time comes sentiment will change quickly.

Bank Credits for Belgium and France

A SECOND development of importance is the granting of a $50,000,000 bank credit to Belgium, with another $50,000,000 in prospect, to be spent in the purchase of goods in this country. It is reported that similar arrangements will be made with France.

It goes without saying that Europe needs our goods and needs them badly. The trouble lies in the means of payment. To sell goods to European nations just now, we must lend them the means of payment. And our investors are already so busy lending money to our own Government and to our corporations, many of which need to do long-postponed new financing, that it would be difficult to sell foreign bonds here at present.

Bank loans to foreign governments are not the best plan for getting the wheels moving, but they appear to be the only plan available at the moment, and they will have the effect of stimulating our export trade. The objection to them lies in the creation of more bank credit, of which we already have plenty outstanding; and since these loans will be discountable at the Federal Banks, an increase in Federal currency notes will result, which may or may not be overbalanced by the decrease in rediscounting caused by contraction of our war and other activities.

However, the creation of these comparatively small amounts of additional bank credits will not seriously weaken the position of the banks, and the export business resulting will tend to stimulate our trade.

A Constructive Suggestion

SECRETARY REDFIELD recommends to the President the appointment of a commission to determine prices to be paid by the Government for the large quantities of supplies it is still buying, in the hope that this price-scale might be generally accepted by other buyers as fair and reasonably stable and other orders therefore placed at the same prices.

At a time when so much uncertainty exists as to what really constitutes a fair peace-scale of prices, this suggestion contains great possibilities. So far as it involved any attempt at the actual fixing of prices, its final results would certainly be injurious—in fact, it is still a grave question whether the Government's price-fixing during the war was of any actual benefit. But this does not appear to be Secretary Redfield's idea. He proposes merely to announce the prices which the Government, after consultation with industrial leaders, accepts as fair and reasonably permanent, in the hope that hesitating buyers may look upon those prices in the same light and be more ready to place their orders.

If this plan were carried out it would have material influence on business conditions.

That a considerable domestic demand in construction lines must underlie the surface of business conditions is shown by the extent of new financing which is going on, even under the difficulties interposed by our big Government borrowings. In January the total of new corporation securities issued was over $242,000,000, the biggest January since 1912 and more than double the monthly average for 1918.

The Revenue Bill

THE new revenue bill has been coldly received. In fact, taxes to pay for a war which is over could hardly expect to get a warm welcome, and the extent to which profits and incomes are penalized in this bill makes it doubly unpopular among those who are hit by such provisions.

While the onerous taxes on big incomes can at least be defended with some success, that can hardly be said of the excess profits taxes as applied by this bill. In a very large

number of cases they operate to penalize energy, thrift, foresight and initiative.

To a considerable extent, also, they defeat their own purpose. If a business, because of its rapid growth, has to pay a 50% tax on its profits, it follows that all its expenses not producing immediate profits are cut in half, while the cost of all enlargement or development work which would produce early profits is doubled in proportion to the benefit the company will derive from it. The tax places a very high premium on non-productive expenditures and an equally high penalty on productive expenditures.

Publicity advertising, for example, costs a company in that position only half as much as usual—and it is noticeable that a great deal of such advertising is being done now. But a rapidly growing oil company drilling for new wells would be penalized to such an extent that its activities in that direction would probably be sharply curtailed.

But it is useless to discuss this matter, for every thinking person already recognizes that excess profits taxation is about the worst possible way of paying for the war; while the non-thinkers, among whom Congress must apparently be included, do not as a rule read THE MAGAZINE OF WALL STREET.

Effect of the Victory Loan

FINANCIAL circles are looking ahead to the five or six billion loan, which is now planned for April. The general expectation is that a slightly higher rate of interest will have to be paid than on the loans which were floated on the wave of war enthusiasm. It is quite probable that, owing to heavy taxation, buyers of the next bonds may not be able to pay for them as quickly as in previous loans, so that the banks may have to carry more of the bonds or carry them longer. It is also probable that the Government will have to borrow still more money later, in some form, as expenses continue tremendous, and the wheat guaranty will add an amount variously estimated from $500,000,000 to $1,000,000,000.

It is not expected that the loan will interfere with the readjustment of business. The Government has spent, or will spend, all the money it gets, and it makes little difference to business activity whether the Government takes your money and spends it or whether you spend it yourself. In either case it creates business.

Money can hardly be much easier than it is now until this loan is out of the way. Nevertheless, accumulation of capital, though slow, is in evidence in various directions. For example, there is a better supply of mortgage money in New York, especially from savings banks.

Money for building is hard to get, because of the high prices of materials and labor compared with rents; but building operations are behind all over the country and renewed activity in that line is only a question of time, since it must come.

In connection with the wheat guaranty, it should be remembered that the high price of wheat will give the farmer more money to spend. Farm machinery, tractors, automobiles, and many other industries will to a large extent get the benefit of the farmer's good fortune.

The Market Prospect

NOT much change can be expected in bond prices until the Government loan is out of the way, but it seems clear that the next important movement in bonds will be upward, and substantially the same may be said of well protected preferred stocks.

The market as a whole shows investment accumulation. Sharp breaks in individual issues, such as that in American Smelting on the reduction of the dividend, do not precipitate any general liquidation elsewhere. At this writing U. S. Steel common has sold only a fraction lower since the cut in its extra dividend than it sold before that event, and average prices of the entire list are still above the low point reached three weeks ago. Broadly speaking, buying is of a much better class than selling; buyers are looking to the longer future, while sellers are in most cases working for small profits only.

Those who are interested in obtaining our views more frequently are referred to page 13a *of our advertising section.*

Feb. 10, 1919.

Victor Morawetz Presents a Plan for the Solution of the Railroad Problem

Railway Executives Proposal Would Not Make Railway Investments Safe—Guarantee of Adequate Return on Railway Investments Should Accompany Rate Making Power

By VICTOR MORAWETZ

IN my judgment, the adoption of the plan for the solution of the railway problem submitted to Congress by the Railway Executives would not solve the problem. It would not make railway investments safe and it would not restore the credit of the railway companies. The plan does not recognize and correct the fundamental defects of the present relation between the railway companies and the Government. It would at best furnish certain palliatives without correcting the things that are fundamentally wrong. A machine that is wrong in its design cannot be made to work well by mere tinkering with some of its parts.

If those who are trying to solve the railway problem would recognize and face the fundamental and unalterable facts of the present situation, I do not think that there would be much difficulty in agreeing upon a workable plan. The fundamental facts that must be recognized and faced are these:

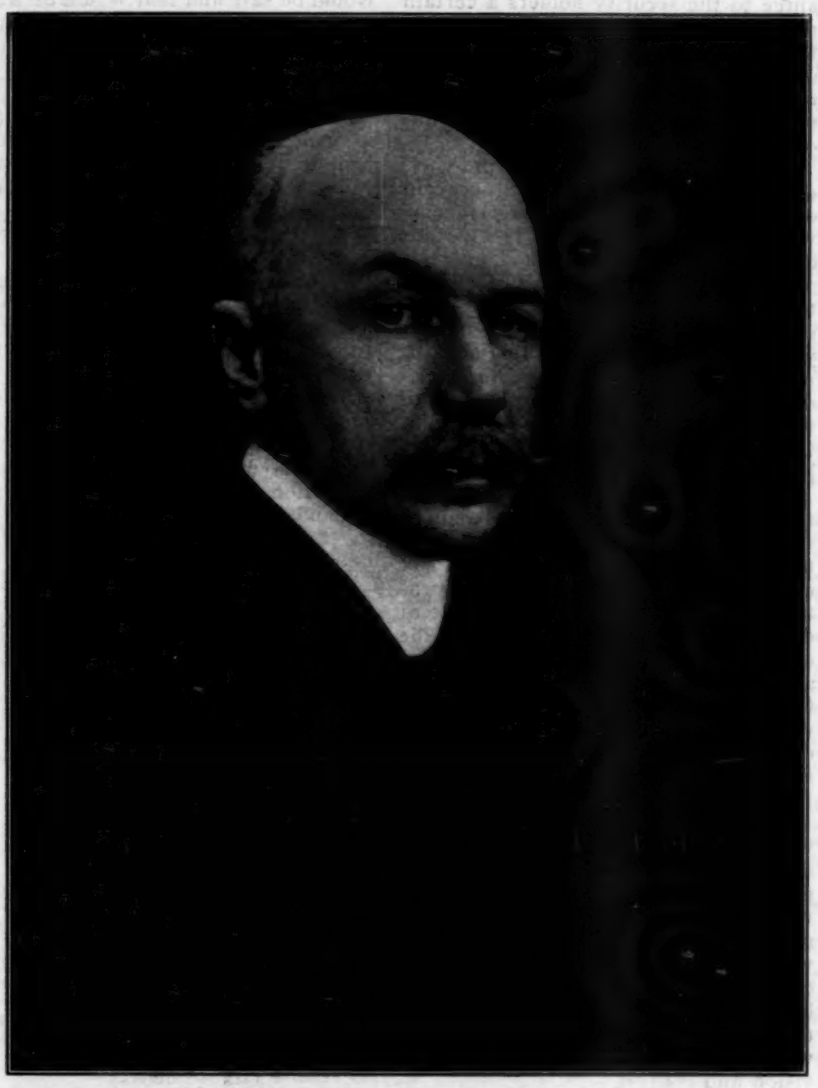
Security of railway investments cannot be restored and the capital necessary to the development of the railways cannot be obtained as long as the power to fix railway rates, practically at will, is vested in the Government, unless in some way the Government guarantees a fair return on these investments.

The Government now exercises through the Interstate Commerce Commission practically unrestrained power to fix railway rates. This power of the Federal Government to regulate railway rates cannot be taken away or abridged.

The constitutional provision that private property shall not be taken without due compensation does not furnish a protection sufficient to secure railway investments and give to the companies the credit necessary to obtain new capital. This constitutional provision furnishes no safe or practicable standard for fixing rates. To make the validity of rate regulation depend upon the so-called "reasonableness" or "adequacy" of the rates, or upon the application of any formula that can be devised, furnishes no real protection to the owners of railway securities. All such tests of the validity of the rates are impractical and illusory. No court, and no commission, and no railway man has ever furnished any definite or practical standard for determining what rates are reasonable, or adequate, or fair.

If the validity of rates is made to depend upon their reasonableness or adequacy or upon any other formula, the question whether in fixing rates the prescribed limit has been passed would have to be decided by the courts. Yet every one knows that the courts are not fitted to supervise the regulation of the railways or the making of their rates. Even if courts were competent to do this, the delays of court procedure would make a resort to the courts ineffective as a means of obtaining redress.

In the plan which I have submitted to the Senate Committee on Interstate Commerce. I propose openly and frankly to give to a proposed Federal Railway Board plenary power to regulate the railways—a power which now is actually exercised by the National and State governments; but the Government on its part would guar-



MR. VICTOR MORAWETZ

Mr. Morawetz, who writes for The Magazine of Wall Street in reference to his proposed solution of the railroad problem, has earned an enviable reputation as lawyer, financier, author and sound economic thinker. Two of his best known works are "Morawetz on Corporations" and "Banking and Currency Problems." As counsel he has taken a prominent part in the reorganization of many of the leading railroads. He was a member of the Reorganization Committee of the Atchison, Topeka & Santa Fe and for fifteen years during the road's reconstruction, was General Counsel and Chairman of the Board. Mr. Morawetz has now practically retired from active business but still retains his seat on the directorate of the Norfolk & Western.

antee to the security holders a certain return on their investments. In giving this guarantee the Government would only perform in part its constitutional obligation not to regulate away the property of the security holders without making just compensation.

In my plan I propose that the Government shall guarantee 65 per cent of the estimated operating income which the railways would receive under a fair and constitutional exercise of the governmental power of regulation. I contemplate that in ordinary cases the operating income of the test years, now guaranteed by the Government, shall constitute *prima facie* evidence of the true operating income of the railways, but all facts and conditions affecting each property are to be considered.

The plan provides for the consolidation of the railways into well balanced systems to be owned and operated by new companies formed under an Act of Congress. These Federal corporations are to be managed by boards of directors of whom part are to be elected by the stockholders and part appointed by the Government, and the Government through the Federal Railway Board is to exercise over these corporations a degree of control similar to that which it exercises over the Federal reserve banks.

Under the plan the stockholders would share with the Government in a distribution of profits in excess of a fixed rate of dividends and they would retain participation in the management of the properties, so that the private interest necessary to secure efficient and economical operation would be preserved. However, in consideration of its guarantee, the Government would receive ample powers of supervision and control.

I think that a careful analysis of the plan will show that if it were carried out the stockholders and bondholders of the existing companies would receive new securities that would be safe and that would be worth more than the securities which they now hold. The benefit accruing to the stockholders of the existing companies would be that they would receive new securities that would be safe and that would be worth more than the securities which they now hold. The benefit accruing to the stockholders would not be at the expense of the Government or of shippers. The Government and shippers as well as the stockholders would be benefited by restoring the credit of railway investments and by making it practicable to obtain necessary new capital at a low cost. The Government would obtain all advantages that it could obtain through Government ownership without the attending disadvantages. The acquisition of the railways by the Government through condemnation proceedings would involve immense cost, long delays and a financial upheaval. Government operation of the railways would mean unprogressive, costly and inefficient operation with poor service to the public and high rates.

The Morawetz Plan

NOTE BY THE EDITOR—Victor Morawetz is well known to most of our readers as an economic thinker of the highest rank, and his long experience as counsel in railroad reorganizations and member of the board of directors of the Norfolk & Western entitle his views as to an equitable solution of the railroad problem to very careful and thorough consideration.

His plan, which is being given very close attention by those interested in the unraveling of the railroad tangle, is based on the following assumptions:

(1) Permanent Government operation is undesirable.

(2) Security of present investments, and capital for further development, cannot be obtained, while rates are fixed by the Government, unless the Government also guarantees fair returns to investors.

(3) Regulation and rate fixing by the several States must end, because it conflicts with U. S. Government regulation.

(4) The Government cannot safely guarantee fair returns to investors unless it has final and plenary control, including power to remove railroad officers.

(5) Railroad facilities should be pooled where increased efficiency will result.

(6) The direct interest of stockholders and officers in the efficient management of the roads must be retained.

(7) To the extent that the Government's credit is placed behind the roads, the Government itself should get the benefit of the resultant saving, not the present security holders.

(8) The Government, therefore, should not guarantee existing security issues.

(9) The Government has the right to

acquire the roads by condemnation proceedings, but not to impair the priority rights of mortgagees and creditors. And to condemn simply the equity of the stockholders would amount to a guaranty of the present bonds and other indebtedness, which would be unfair to the Government and to junior security holders.

The above assumptions are so eminently fair and reasonable, and show such a thorough grasp of the questions involved, that they will undoubtedly be accepted by practically all students of the problem. The difficulty lies in forming a workable plan which will achieve all these results together.

Mr. Morawetz' plan is, in substance, as follows:

(1) Group the roads in 10 or 15 Federal corporations, adjusted with a view to efficient operation.

(2) Refund present securities into debentures and stocks of the new Federal corporations, the Government to guarantee the debentures and to guarantee minimum dividends on the stocks.

(3) Establish a Federal railway board, with subsidiary boards for local regulation.

The principal difficulty would be to get at the fair value of each present railroad (to be paid for in the above new debentures and stocks), and to distribute the compensation justly among the present security holders.

Neither the original cost nor the reproduction cost of a railroad property would fairly represent its present value. Some roads are now worth much less than they cost, others much more. Nor can the market value be established, since that depends on what transportation rates the Government will allow.

Mr. Morawetz therefore proposes that the amount to be paid for the present roads (in the new debentures and stocks) be arrived at by capitalizing their true operating income, and that the earnings taken as a basis for the present Federal Control Act be accepted as *prima facie* evidence of what that true operating income is—subject to modification where receivership or other abnormal conditions existed within the three-year test period.

He tentatively suggests that 4% debentures of the new Federal railroad corporations, guaranteed by the Government, be issued to an amount that would impose an interest charge equal to 40% of this estimated true income above mentioned; and that stock be then issued to an amount upon which the remaining 60% of the estimated income would suffice to pay $6 a share—the Government to guarantee $2.50 a share, the stockholders to be entitled to the excess up to $4 a share total, while above $4 a share the stockholders and the Government should share equally.

He would also give the Government the option to purchase the stock at any time at $85 a share—a point against which we imagine considerable objection might be raised.

It must be borne in mind that these new debentures and stocks would not be distributed to present security holders par for par or share for share. The aggregate amount of the new securities, as determined by the above plan, would be equitably apportioned among the present stock and bond holders.

While many complications would arise in putting the above plan into actual operation, they would certainly be no worse and would involve fewer unavoidable injustices to individual investors than have frequently occurred in the private railroad financing of the past.

Something constructive will certainly grow out of the present railroad confusion, and Mr. Morawetz' contribution to the problem will be of notable help toward its solution.

CUMMINS FEARS R. R. DISASTER

"IF Congress does not pass legislation to prevent it, and if the President accepts the guidance of his Director-General of railroads and returns the properties to their owners without, meantime, legislative provision for their futures, I want to say that this country will be precipitated into the greatest financial and transportation cataclysm it has ever known."

Thus declared Senator Cummins at the conclusion of a most impressive speech on the railroad emergency recently. He spoke in explanation of a bill he was introducing, to require that the railroads shall be kept in Federal control at least twenty-one months after the proclamation of peace. The present law permits their return at any time after the ratification of peace, and it is understood the President is disposed and has been advised by Director-General Hines to return them very soon unless other action is required by law.

"I do not believe that congress will pass the measure to keep the roads in Government hands for five years," said Senator Cummins. "It is the unanimous judgment of bankers, lawyers, experts, practically everybody that has become informed on the subject, that to return the properties in their present condition, without legislation, would inflict a disaster absolutely irreparable and universal. Within sixty days from their return, one-third of the mileage of the country would be in the hands of receivers."—N. Y. *Eve. Globe.*

How the Readjustment Is Proceeding

As Indicated By the Movements of Six Leading Groups of Active Stocks

By RICHARD D. WYCKOFF

IT is an acknowledged fact that the movements of securities run from several months to a year in advance of corresponding changes in the industries represented by these securities. It is therefore very interesting to observe how certain representative groups of stocks have been acting in the market during the past several weeks.

For this purpose we have made a graph of six leading groups composed as follows:

STEEL: U. S. Steel, Bethlehem B., Crucible, Republic, Midvale.

COPPERS: Anaconda, Smelters, Utah, Inspiration, Kennecott.

EQUIPMENTS: Am. Car & Foundry, Am. Locomotive, Baldwin, Railway Steel Springs.

MOTORS: General Motors, Studebaker, Willys-Overland, Maxwell, Pierce Arrow.

OILS: Mexican Petroleum, Pan American, Texas Co. Royal Dutch, Ohio Cities.

TOBACCOS: United Cigar Stores, Tobacco Products, American Sumatra.

Our graph covers a period of about six weeks, or one-half of the interval between the signing of the armistice and the time this was written.

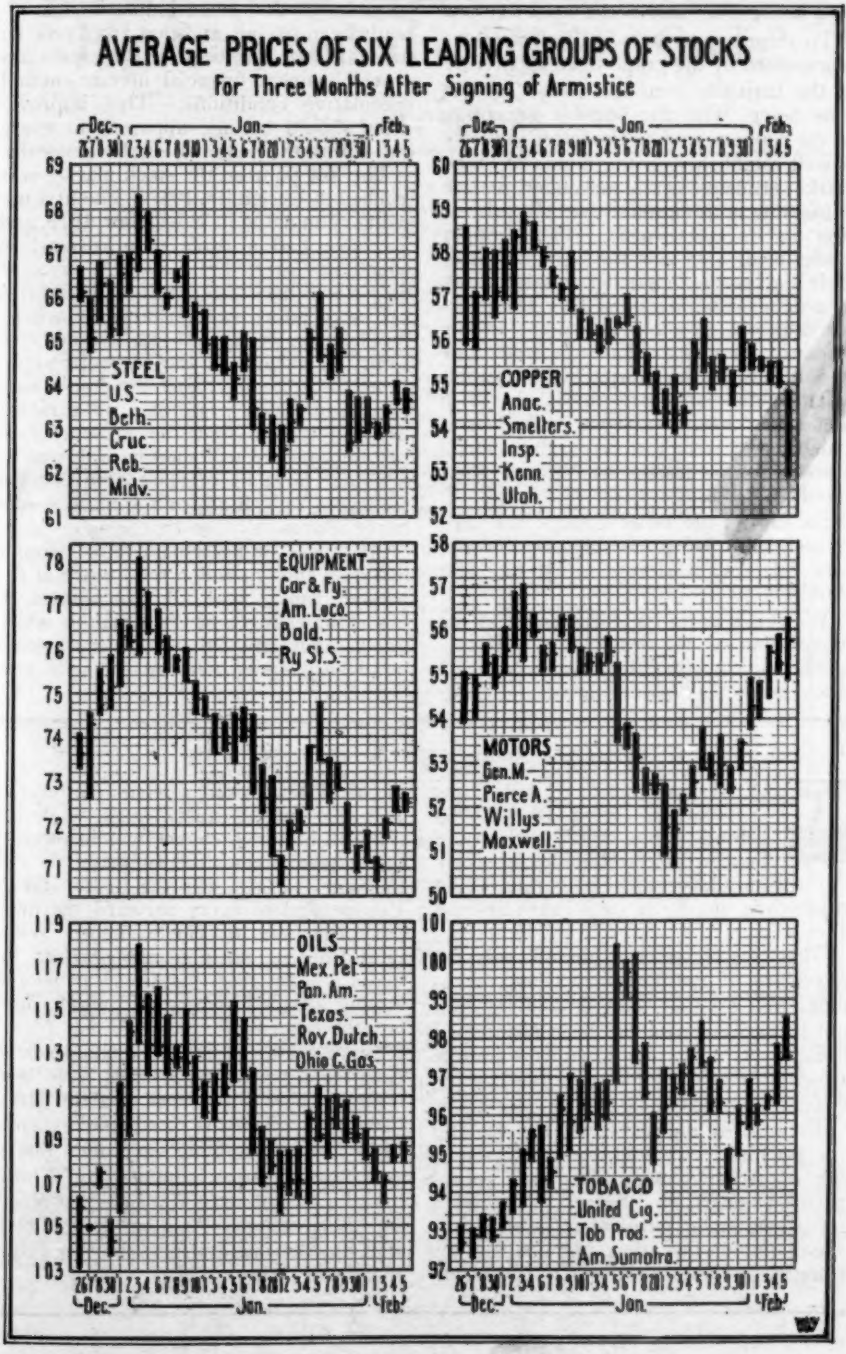
Taking these groups in the same order as they appear in the graph, we find more or less similarity in the action of the steels, coppers, and equipments, these three having been characterized by a rally which culminated January 3rd, followed by a decline to January 21st. The forces which produced this decline evidently spent themselves for the time being, except in the case of the coppers, which on February 5th, under the influence of the dividend cut in Smelters, began a new retrograde movement. Up to the time this influence became effective, the copper stocks showed considerable resistance to pressure.

The steel averages indicate that some influence far more effective than any announced thus far will be necessary to induce further liquidation by speculative or investment holders. Recent statistics of the number of U. S. Steel shares held by investors, versus those held by brokerage houses, show a steady absorption which has been characteristic of all declines in U. S. Steel for the past few years. It appears, therefore, that it is not a question of what the earnings may be during this period of readjustment, so much as the attitude of the American Investor toward this favorite medium for his funds. Intrinsic values, treasury assets, vastly increased and improved plant and property, appear to carry more weight than a falling off in business.

The motor stocks did not follow the steel, copper and equipment groups, except as to the high and low points about the days previously mentioned. Since January 22nd, their course has been persistently toward recovery, from which we may judge that the corner has been turned in this industry. The motor industry has been very quick to get on its feet.

Petroleum stocks have of course followed a much wider range, under the influence of Mexican Petroleum, which is swinging back and forth over a thirty point range to the consternation of small investors. Of late there has been little pressure on this group beyond the cleaning up of weak accounts in Mexican Petroleum and Ohio Cities Gas, the decline in the latter being due to selling against a new stock issue. Judging by the graph we should say that nothing is threatening in this industry, and that the foundation is being laid for a better market.

The tobacco stocks have followed a course distinctly individual, a strong uptrend having been led by United Cigar Stores during the first few weeks, followed by two reactions, then a resumption of the upward trend. These are signs that the industry has recovered from the effects of the war, and that plans are being laid for improved conditions,


AVERAGE PRICES OF SIX LEADING GROUPS OF STOCKS
For Three Months After Signing of Armistice
STEEL
U.S.
Beth.
Cruc.
Reb.
Midv.
COPPER
Anac.
Smelters.
Insp.
Kenn.
Utah.
EQUIPMENT
Car & Fy.
Am. Loco.
Bald.
Ry St.S.
MOTORS
Gen.M.
Pierce A.
Willys.
Maxwell.
OILS
Mex. Pet.
Pan. Am.
Texas.
Roy. Dutch.
Ohio C. Gas.
TOBACCO
United Cig.
Tob Prod.
Am. Sumatra.
Dec.
Jan.
Feb.

both in the trade and in the stock market.

To summarize, these six industries as represented by the graph have apparently in the majority seen the worst for the time being, with the possible exception of the coppers, and as the latter industry is well established in the minds of stock market students as the tail-ender, we are witnessing nothing more than the procession in its usual order. The copper stocks being as a rule the last to register their high points in a boom and their lows in a depression, we must now look forward to the possible low point in the prices of the copper shares between now and the time the porphyry companies meet for dividends early in March. With the copper situation about as bad as it can be, and with the depressing details known to everybody, the turning point should not be far away.

So far as the other groups are concerned, the most promising are the motors, oils, and tobaccos. Next in order should be placed the steels.

We judge from the foregoing that the movements of these stocks, taken as a whole, indicate that the low point in the stock market's discounting of the readjustment of American industries has already been passed, and that from now on the market should begin to anticipate improved business, financial, investment and speculative conditions. This improvement should become apparent to every one within the next two or three months.

The low point in the stock market was reached in December, 1917. The first upswing culminated in November, 1918, and we have had a three months reaction which has carried the average price of fifty stocks back about half way. At this half way point the resistance shown by the leading groups of stocks, and the ability of several of these groups to recover in spite of many adverse conditions and much pessimism, is a rather clear indication that the present readjustment period will soon be followed by a higher level of prices for investment securities as well as for the more speculative shares.

All these indications are of course based on factors which are known at the present time. Due allowance must be made for changes in the situation which might induce further liquidation in quarters where strength and resistance is now the rule.

UNCLE SAM NEEDS THE MONEY

THE treasury of the United States is something over $4,000,000,000 behind today, and another big loan will be absolutely necessary to meet the Government obligations—the peace-time needs as well as war-time ones.

This answer was made officially by Secretary of the Treasury Glass to rumors that another loan probably would not be necessary or had been abandoned because of the paring down of war-time expenditures and authorizations to the extent of $15,000,000,000 or more.

Because of the persistent rumors and the possibility of public misunderstanding of treasury operations and appropriation terms, the Secretary issued a formal statement explaining the situation. He pointed out that the paring by Congress of appropriations to the extent of $15,000,000,000 related entirely to proposed future expenditures, while the problem of the Treasury was in meeting the expenditures already made to win the war, to care for the army still in Europe and to carry forward the ordinary functions of Government. While he did not say so in so many words, he made it plain that the American people, having attained victory and peace, must pay the costs.

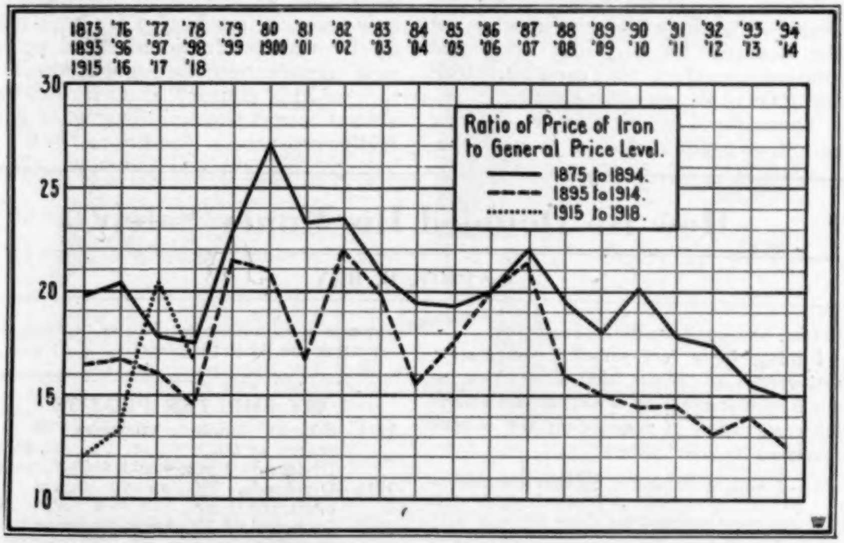
Since the armistice was signed certificates totaling $4,231,890,500 have been issued. There is a balance of about $100,000,000 in the daily fund and expenditures are still running very high, due to purchase of army supplies for France and the coming in of war bills just reaching the treasury. As a result it is clear that at least one and perhaps two future loans will be necessary.

MONEY--BANKING--BUSINESS

Pig Iron and the "Major Cycle"

By G. C. SELDEN

The article entitled "Looking Ahead," in our January 4th issue, attracted attention because of the method used in constructing the diagrams—that of showing relationships rather than aggregates. It is desirable to follow that method in order to bring out clearly the progress of the cycle, because otherwise the variations in trade activity are obscured by the factor of growth.



Other graphs besides those shown with that article can be constructed on a similar plan. One of the most interesting is given herewith, and may well be considered in connection with the others.

This graph shows the ratio of the price of pig iron to an index of commodity prices. (For the latter, Falkner's index is used down to 1888 and Dun's from 1889 to date—the two indices having been almost identical in 1889.)

The object in calculating this ratio is to identify the periods when new construction was most active. Iron is pre-eminently the material of construction. During the periods when new enterprises are being initiated and old ones enlarged, there is a much greater *relative* demand for iron—as compared with the demand for other commodities—than in times when new construction is at a minimum. Therefore in those periods of activity the price of iron is higher in comparison with other prices—its ratio to other prices rises.

The graph illustrates both the broad swing of the "major" or "twenty-year" cycle, and the great importance of new construction in its bearing upon the activity of trade.

It was not until the last quarter of

the nineteenth century that the "age of steel" really began. Moreover, 1875 is a convenient starting point because the violent panic of 1873, which brought industry temporarily to a halt, had then subsided and its immediate after-effects had been cleared up.

From that year the graph shows two complete twenty-year periods in such a manner as to permit ready comparison year by year, ending with the year of the war, 1914; and also shows the same ratio for the years 1915 to 1918.

There was a remarkable correspondence in the movements of this ratio during the two twenty-year periods. From 1875 to 1878, and again from 1895 to 1898, new construction was small and the prices of iron relatively low. In 1879 and also in 1899 came a boom in construction. After two years of boom came a reaction, but the demand for pig iron continued relatively good for ten years, until 1888 and 1908 in the respective periods.

Thereafter, in each case, a long period of gradual decline in new construction. In the earlier period this lasted from about 1888 to 1898; in the second period from 1908 to 1916. In 1917 came another boom in pig iron prices, which was checked in the latter part of that year and in 1918 by the fixing of the price by the Government.

This last boom, however, was due only in part to new construction. The more important cause was war work. As stated in the previous article, it appears probable that the stimulus of the war has hurried the movement of the cycle by about two years—just as the Civil War apparently shortened the cycle in which it occurred by about four years.

But even if that is so, we should still have a long period of extensive new construction ahead of us. This should be all the more true because new construction has so far been held up by war production. And active new construction, throughout the history of this country at any rate, has always meant the maintenance of generally prosperous conditions.

How He Doubled His Money Safely

By PHIL. B. BRY

Editor, Magazine of Wall Street.

I think, for a long-pull-ultra-conservative-anti-worry-riskless-sure-thing proposition, as our Boston friend Tom would say, the following combination of transactions will suggest something to your readers:

1914—I bought 70 shares Smelter common at 66, netting me 6% on investment, as stock was then paying 4%.

1916—I traded my 70 shares common for 70 shares preferred, increasing my dividends $70 (common then paying 6%). Common in that year sold higher than the preferred.

1917—When preferred sold at 100 and common at 69, I traded 70 shares preferred for 100 shares common; increasing my dividends $110.

I expect if business keeps up to eventually trade my common for preferred and repeat.

Am in no hurry and were my means not limited I would turn the trick in other stocks. For example, Steel common in 1916 could have been traded for preferred and the preferred in 1917 sold for 102 and proceeds used to buy common at 80 with good chances of some day repeating the trade for preferred.

MY SMELTER PROFITS

1914—Bought Smelter common, 70 shares at 66	$4620.
Dividends 2 yrs. 4 and 5½%	665.
1916—Dividends, 7% on 70 shares preferred 1 yr.	490.
1917—Increase of 30 shares common at today's market, 78	2340.
Dividends on 100 shares common, 6%, 1 yr.	600.
Increase from 69 to 78 on 100 shares common	900.
	$4995.

This $4995, returned on the original investment in 4 years is equal to 108%, or better than 27% per annum.

My dividends in 1914 were $280 per year. My dividends now are $600 per year. In other words, I am now making 13% per annum on the original investment, instead of 6%.—P. B.

Leading Opinions

About Financial, Investment, Banking and Business Conditions

Warburg Opposes Federal Ownership

Not federal ownership but federal control of the carriers is the solution of the railroad problem by Paul M. Warburg, former vice-governor of the Federal Reserve Board. In an address before the New York State Chamber of Commerce, Mr. Warburg compared the railroad situation to-day with the banking situation in 1908. The time is not ripe for Government operation and Mr. Warburg points out that the thought of Washington operating $20,000,000,000 worth of railroad properties is enough to make one shudder.

He said in part:

"The highest pre-war expenditures ever authorized by Congress amounted to about one billion dollars. Who would dare to hope that the railroads' annual operating item of approximately four billion dollars, plus the amount necessary for additional capital expenditures, estimated at about one billion, could be spent without ultimately contaminating and corrupting our political and social life? Who would doubt that through the elimination of competition and the substitution of Government officialdom for private enterprise, general efficiency and progress would suffer, while the cost of operation would increase by leaps and bounds?

"Finally, it is not fair to foresee that a government owning the railroads and becoming the largest purchaser of steel and coal would soon find itself in the position of wishing to own and operate the steel mills and coal mines, and to construct its own locomotives and cars? Can you imagine how many voters ultimately would become dependent upon the Government, and inversely how the Government would become dependent on these voters?

"We might look with equanimity upon the eventuality of being forced to pay the price of costly railroad operation by submitting to increased transportation rates or higher taxation; but we cannot envisage with complacency the certainty of seeing the country's development arrested or retarded and having it saturated from top to bottom with a spirit of bureaucracy and political corruption."

Must Purchase Foreign Securities

American security markets are getting further and further away from the provincial in that investors are becoming more accustomed to buying foreign securities in volume. If the United States is to maintain the international position she has won during the war a market must be established for the industrial as well as the government issues of other countries, according to a circular issued by the Foreign Department of the National City Company. Now is the time to enter this field on a large scale as foreign countries are engaged in rehabilitation.

Life

SHUT THE DOOR, THE WAR'S OVER

The article said in part:

When the practice of buying foreign securities once becomes an established habit in the United States, it will grow with increased momentum and become one of the most important factors in maintaining the commercial and financial position of our country. It may appear a gigantic task to sell in the American market securities of foreign governments and foreign corporations in large quantities, after our investors have become accustomed through a period of many years to place their savings in domestic securities. The task would be difficult if American business men were not equipped to grasp new opportunities and to adjust themselves easily to new conditions.

Some security holders may feel that the sale of foreign securities in large amounts throughout the United States will tend to depress prices of their present domestic securities. Such a view appears unwarranted. If England had reached a similar conclusion a decade ago, she would be to-day a small provincial nation. She has been willing to make her funds available for the development of natural resources in almost every part of the world, although, through that development, competition for her home industries has increased.

Financial Recovery Beginning

Such evidences as increase of bank balances at financial centers, a tendency toward lower rates for money, lessening of the amount of money held at Federal Reserve and member banks, inflow of gold coin and gold certificates at banks, decline in volume of federal reserve notes outstanding, and lessening demand for money point to the beginning of financial recovery after abnormal war conditions, according to the views of the Federal Reserve Board.

In discussing the financial situation further the Federal Reserve Board said in a review:

Fin. Amer.

THE BARGAIN HUNTER

The return of active production and consumption is being retarded by high expenses of production.

Those countries which first succeeded in readjusting their costs of production and restoring their industry to a normal level of values will be the most successful in developing their exports and controlling the markets of consuming nations the world over.

"New Era For Capital and Labor"

Capital and labor are now able to appreciate each others worth and a closer working understanding between them can be looked for in the future, according to Linsey Hopkins, Southern banker and industrial magnate. Both desire to join hands in the reconstruction of the world and this attitude of appreciation makes it highly improbable that there will be any serious disagreement.

In discussing the labor problem he says:

"For the first time in the history of either organized labor or organized capital both sides are willing to meet each other half way, and those who control capital are the first to admit that the worker is entitled to the fruits of the labor and to get more in the future than he has in the past.

"There has been no marked reduction of wages in the south as yet, and, while it is well enough to talk about wages coming down, the first move must come from capital. That is, capital must accept a reduction first, for the man of means can live on less than he is ordinarily accustomed to during the readjustment of the economic structure than the workingman, who as a rule lives from day to day or month to month. This is well recognized by the leaders of industry and their willingness to sacrifice first is not lost on the man who toils."

Willys Predicts Automobile Prosperity

What vast changes can be brought about in a year. About this time last year when the annual automobile show was held in New York the outlook for this industry in particular and every other in general was grave, to say the least. Now the situation is reversed and automobile manufacturers are making preparation for big days ahead.

In discussing the outlook for the automobile industry John N. Willys, president of the Willys Overland Automobile Co., has this to say:

"The automobile industry emerges from war production with greatly added capacity, ready to take up again the manufacture of motor cars in increasing numbers with the added equipment and greater efficiency born of war methods. The war has enabled us to stop building cars, catch our breath, make plans, clean house, and start again with clearer vision, with greater plans. The unfolding of these plans will be of collossal importance in the reconstruction of business and living conditions throughout the world.

"The outlook immediately before us is most encouraging. Commercial reports indicate a good crop yield, which is usually an indication of prosperity. There is demand for all the farm produce the world can develop. With millions of men engaged in actual warfare and millions more employed solely in war production work, there has been an exhaustion of all kinds of commodities throughout the world."

Wage Problem And the Manufacturer

In a detailed discussion on the labor problem as it applies to manufacturers, Herbert F. Perkins of the International Harvester Company brings out that the United States is emerging from a period of intensive effort, accompanied by increased cost of production which has been reflected in the living cost of wage earners. Labor has received an increase in dollar-wages but not in actual prosperity, due to the advance in cost of living and with the advancing cost of conducting business the manufacturer has been doing business on a higher plane of prices but with no actual increase of profits.

The writer of the leaflet says further:

To-day the manufacturer of the United States faces a serious and uncertain future. He knows that for a year and a half to come the price of wheat has been guaranteed at the highest war price. He understands that his country, owing to the demoralized condition in other great food producing nations, is expected to protect food shortage in Europe and he therefore has reason to expect that foodstuffs generally will be in unprecedented demand, so that although the food requirements of armies is materially greater than the food requirements of the same population when returned to civil life, the cost of food in the workman's budget will continue at a high level for an extended period.

It is necessary to emphasize that until all other expedients are exhausted, the policy of forcing a lower standard of living by reduction of the money wage, while living costs are still approximately at their peak, or at any time to reduce the commodity wage, particularly to do so by arbitrary discharge and rehiring or any of the other discredited methods which have at times been more or less common, would be the veriest exhibition of not only injustice, but of folly. It would surely be accompanied by hostility on the part of the great wage-earning community, as well as on the part of the clear-thinking men in the community at large; would be the surest way to increase the power of the demagogue, whether he be politician or unprincipled labor leader; would widen the unfortunate cleavage, which we should be mending instead of spreading, between wage-earners and management; and, at the present crisis when the influenza of Bolshevism is abroad in the world, it would undoubtedly rapidly spread this disease in our own country. It would, in short, be bad morals and bad business.

Wichita *Eagle*

SEEING STARS

Public Operation Beset With Evils

That Government operation and ownership of public utilities is wasteful and inefficient is brought out by a report on the subject by a special committee of investigators of the Merchants Association consisting of Frank R. Chambers, James G. White, H. H. Porter, Francis H. Sisson, Professor Joseph French Johnson and Otto H. Kahn.

Sound judgment, special ability, zeal

and energy are usually lacking under Government operation and the rare official who is competent finds difficulty in carrying out progressive plans because of indifference and slowness of higher officials.

In pointing out an actual case the report goes on to say:

A case in point is the present condition of New York Harbor. Our commerce is suffering severely from lack of pressingly needed piers. The Dock Commissioner has repeatedly made urgent representations, but his initiative has been paralyzed by the inertia of the controlling board.

other public utilities in France, England and Germany has proved costly, wasteful and inefficient, compared to the operation of the same utilities in this country.

Redfield Submits A Prosperity Plan

Stabilization of prices, through Government intervention in the basic commodity markets, as a means of removing threatened industrial and business stagnation, with its attendant unemployment, has been recommended to President Wilson by a conference of

Buy W. S. S. 1919

Another serious drawback to an able official under Government ownership, the report says, is his inability to pick his own men, to raise salaries by way of recognition of merit, or to the party in power to build its depots and make promotions, in accordance with the needs of the service.

These conditions do not prevail in well-managed private business undertakings. The executive practically always receives all the discretion necessary to maintain a fully efficient personnel. He also has a large and usually controlling influence in obtaining whatever funds will conduce to the effective and economical conduct of the business.

Another temptation under Government ownership, as the report points out, would be for other improvements in doubtful States for political effect, or to regard them as Congressional patronage, after the example of public building legislation. The report asserts that public ownership of railroads, telephones and

Cabinet officials and industrial leaders who have made an exhaustive study of the situation.

In making this announcement Secretary of Commerce Redfield, at whose instance the conference was called, said the plan proposed to the President was the appointment of a representative committee to investigate production costs in all fields and recommend prices at which the Government, through its various departments, would do its purchasing. Producers, consumers, and labor representatives would be asked to co-operate in determining the prices.

Secretary Redfield said that those attending the conference were convinced that the determining of fair prices in the semi-official and co-operative manner proposed would release "latent consuming power," now dormant because consumers were awaiting price stabilization, and thus bring about an immediate increase in production in all lines of business.

BONDS AND INVESTMENTS

The Middle Ground in Railroad Bonds

Issues of Attractiveness for the Business Man—Securities with Good Yield and Reasonable Security

By GEORGE S. HAMMOND

NOT a few American railroads have outstanding a multiplicity of bond issues. In some cases they follow one another in point of priority with the regularity of a flight of steps. In others, they are intertwined with one another in a most confusing manner, with perhaps a single issue including under its mortgage everything from a first to fifth lien upon various pieces of property.

The definition of the exact investment status of such bonds naturally is difficult. As it is generally put, the companies concerned have "complicated mortgage structures."

From among these bonds, frequently occupying a middle position between absolute priority and juniority of lien, one may select investments affording a greater return than those issues enjoying lien precedence, yet often fully protected as to principal and interest. In a few instances, one may obtain clean cut second mortgage bonds, followed by still another issue, but, as a rule, we find the bond of middle grade to be of the tangled character noted.

Such securities are often looked upon with the indifference associated with things which are "neither flesh nor fowl." They lack the first mortgage security which appeals to the most conservative investor. On the other hand, they also lack the exceptional return which leads the less careful buyer to acquire purely junior issues.

Perhaps some of the bond buyers among the readers of this magazine have hesitated between the two extremes and have never been quite able to reconcile themselves to either class. If so, they may be interested in the table herewith, which will enable them to make a compromise between the desires for liberality of return and for avoidance of undue risk. The return averages slightly over 6%, and involves only a moderate degree of uncertainty as to permanent investment value.

Baltimore and Ohio First 4s of 1948 have rather a doubtful position in this list, for they cover by first lien about 560 miles of road and valuable terminal property in Philadelphia, Pittsburgh and other places. They are junior, however, to $75,000,000 Prior Lien 3½s of 1925 upon nearly 1,100 miles of additional line. Junior to them are the Convertible 4½s and the Refunding and General 5s, which aggregate $123,250,000 and should constitute an ample bond equity were the Baltimore and Ohio ever to get into trouble. They are an excellent purchase, it would appear.

Chesapeake and Ohio General 4½s have also a share of first lien mileage, 426 to be exact, but upon 1,054 miles they are subject to $42,560,000 prior liens. Their buffer consists of three issues aggregating $76,280,000. As this is not far from half of the total debt of a company which has been doing very well of late, the General 4½s are absolutely good.

Big Four General 4s and 5s cover nearly all the important parts of the system, chiefly by second mortgage. The prior liens total $38,017,000, while the junior liens consist of two issues of debentures, amounting to $14,650,181. The company had a very severe setback during the Ohio floods and would have gone to the wall without the support of the parent New York Central, but it now has a solid earning power adequately protecting the mortgage bonds.

Denver and Rio Grande Improve-

MENT 5s were put out in 1888, as a second mortgage upon the 1,647 miles of road covered by the Consolidated 4s and 4½s. There are but $8,335,000 of them which, together with the $40,507,000 Consolidated Mortgage bonds give the conservative per mile rate of $29,651. At later dates, the $32,690,000 First and Refunding 5s and the $10,000,000 Cumulative Adjustment 7s were added to the debt. Though the Denver and Rio Grande would not be a strong property, even had it not been brought to a receivership by the Western Pacific fiasco, there have been no defaults as yet, and the Improvement 5s have sufficient equity to enable holders to protect themselves, if need be. The standard government rental should cover the bond interest of $5,623,627 about one and one half times. The two junior issues above account for $2,334,500 of the interest charge, so that any reorganization which eliminated this sum as a fixed charge would place the Improvement 5s in an excellent position. In any event, they appear reasonably secure.

ERIE RAILROAD CONSOLIDATED MORTGAGE PRIOR LIEN 4s are typical of the class of security under discussion. They cover, in addition to other mileage, practically the entire main line of the Company from Jersey City to Buffalo and to the Illinois-Indiana State Line near Chicago. Of this mortgage, there are $35,000,000, while the prior liens, made up of very old issues, aggregate $71,725,900. The rate of the mortgage is not at all excessive for the main artery of a trunk line railroad, almost entirely double tracked. Were the debt of the Erie to stop with the Consolidated Prior Lien 4s, they would undoubtedly sell ten points higher. They are depressed by the fact that the Erie's credit is inferior as a result of the existence of:

$35,885,000	Consolidated General Lien 4s
40,642,130	Convertible 4s
15,000,000	Secured Notes of 1919
$91,527,130	Total

These junior bonds constitute about 43% of the aggregate debt of the Erie proper. They hang like a millstone about the Erie's neck. Should the road's financial structure ever receive the revision of which it stands in such need, the Consolidated Prior Lien 4s would be more apt to benefit than suffer thereby.

KANAWHA AND MICHIGAN SECOND 5s are another bond having only partial qualifications for admission in this group, for while it is a junior issue, it has nothing but stock following it. Its position is so sound, however, that it is an unusual good purchase, price considered. There are but $2,500,000 of the Second 5s, and a slightly smaller amount of First 4s, covering a property carried at $18,000,000 and which earns its charges from three and one half to five and one half times. The road is a small subsidiary coaler of the New York Central and a connecting link between that System and the Chesapeake and Ohio.

NEW YORK CENTRAL REFUNDING AND IMPROVEMENT 4½s are the only bond in the list legal for savings bank investment in New York, with the exception of the Baltimore and Ohio First 4s. They are one of the prize railroad issues for complexity of lien and run the whole range from first to sixth mortgage, with a partiality for fifth position. They are sub-

MEDIUM GRADE RAILROAD BONDS

	Due	Price	Yield
Baltimore and Ohio First 4s	1948	77	5.60%
Chesapeake and Ohio General 4½s	1992	77	5.85
C. C. C. and St. Louis General 4s	1932	69	5.80
Denver and Rio Grande Improvement 5s	1928	79	8.00
Erie Consol. Prior Lien 4s	1996	69	5.80
Kanawha and Michigan Second 5s	1927	91	6.35
New York Central Refunding 4½s	2013	82	5.50
St. Louis Southwestern Second 4s	1989	57	7.00
Seabord Air Line General 4s	1950	72	6.00
Wabash Second 5s	1939	88	6.00

ject to the tremendous sum of $486,481,-000 prior liens, all of which it is planned to retire eventually by means of the Refunding 4½s. They have behind them $100,000,000 Convertible Debenture 6s and $250,000,000 Stock which has been in the dividend paying class for forty-nine years.

St. Louis Southwestern Second 4s are second in position among four bonds which, with minor exceptions in their lien, constitute an evenly graded series covering practically all the property. The Cotton Belt Route suffered a shock to its earning power and credit during the depression attending the opening of the war from which its securities still suffer. The road is now in fairly good shape, its traffic of the last three years having been altogether exceptional. The revenue under government control will be adequate to provide for the entire interest charges, which amount to $921,700 for First 4s and Second 4s, while the two junior issues, the Consolidated 4s and the Terminal and Unifying 5s, require $1,298,220, or considerably more than do the older bonds. The Second 4s are peculiar in that they are income bonds, notwithstanding that two fixed interest bearing issues follow them. They are quite safe, however, and an excellent bargain.

Seaboard Air Line First Mortgage 4s are clearly a misnomer. The extent of the first lien claim is just 247.6 miles, while on the balance of 2,238 miles they are subject to from one to three underlying issues. The prior securities total $30,097,000, while the juniors are $72,-241,500, or nearly three-fifths of the entire debt. The Seaboard is the weakest of the more important southern roads, but this bond at only $28,117 per mile, including prior liens, ought to weather a receivership easily, should one occur.

Wabash Second 5s are a thirty year old closed mortgage of $14,000,000, covering a thousand miles of the best part of the Wabash System. They are subject to $33,900,000 First 5s, but are well protected and were in no danger during the late receivership of the predecessor company. They are followed by but $250,000 Debenture 6s, but their per mile rate of less than $36,000, including the prior lien, is very moderate for good main line property.

STOCK EXCHANGE RULINGS

In response to an inquiry by The Magazine of Wall Street regarding recent Stock Exchange rulings the head of a large investment house replies as follows:

Referring to your inquiry regarding the ruling of the Governing Committee of the Stock Exchange dated December 11, 1918, and reading as follows:

"At a meeting of the Governing Committee, held this day the following Resolution was adopted:

"That the offering in a public manner

1. To buy or sell securities 'on stop,' above or below the market, or
2. To buy or sell securities 'at the close' is forbidden. Any member who shall violate this resolution may be fined by the Committee of Arrangements in a sum not exceeding fifty dollars, or may be reported to the Governing Committee, who may suspend him for a period not exceeding sixty days."

I beg to advise that it is understood that this ruling was made for the following reasons:

It has been an ordinary occurrence for a broker to go into a crowd and announce publicly that he would buy stock at a price above the market or sell at a price below the actual quotation. This was done almost invariably because the particular broker making the announcement had a stop order to execute at the price named. It was also customary for brokers to announce publicly that they would buy or sell "at the close."

My understanding is that the Governing Committee felt that it was not good business practice to make such announcements publicly, as they disclosed orders which might influence the action of the stock in question.

The particular objection to offers to buy or sell at the close, is that it is a simple matter for a trader or specialist to increase or lower his bid as the case may be, if he knows that an order must of necessity be executed at the "close," which is generally understood to mean in the last thirty seconds of trading and while the bell is ringing.

In regard to your second inquiry regarding whether specialists may "show their books," I have no knowledge of any rule forbidding it, and yet I believe that it is not generally done. It is very usual to ask for the "size of a market," and such a request is usually granted, but it is my experience that the majority of the specialists, and I think rightly, consider their orders as confidential and not to be disclosed.

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How to Invest

Chap. V—The Principles of Investment

Fundamental Elements of Safety, Income, Marketability, Appreciation and Diversification

By GEORGE E. BARRETT

The main object of investment is to place one's funds where they will be secure and still produce a revenue. For mere safe-keeping they might be placed in a safe deposit vault, but they could not produce an income while there. Besides being against the interests of society to tie up one's capital in such a manner, it is against those of the individual, because it is possible through a wise choice of investments to secure adequate safety together with a continuing income. Investment consists of placing capital at the disposal of another, receiving in exchange the obligation of the borrower in the form of a bond or note, or an interest in the business in the form of a preferred or common stock.

The interest or dividends paid upon such bonds or stocks represent the price of capital. The price naturally varies with the credit of the borrower and is affected by general market conditions much in the same manner as the price of any other commodity.

No absolute rules could be laid down for making investments which would meet the requirements of every individual, but there are certain considerations which enter into the selection of investments with varying degrees of importance to all investors.

Principle among these are:

1. Safety
2. Income
3. Marketability
4. Appreciation
5. Diversification

1. Safety

The degree of safety is measured by the probability of repayment of the principal of a bond at maturity, together with the regular payment of interest thereon. In the case of stock where the corporation is under no obligation to pay the principal invested, the safety of the investment is reflected in the permanency of the business and the probability of its continuing to be a profitable enterprise enabling the payment of regular dividends.

The safety of investments varies from the highest type of security to the most speculative. Obviously, the widow who has received a certain sum of money from the estate of her deceased husband with no other source of income, cannot afford to make an investment involving so great a risk as the business man who could recoup any losses sustained through unfortunate investments.

2. Income

The income obtainable from securities which may be classed as investments varies from 3% or 4% to 7% or 8% per annum. The varying rates of income generally reflect varying risks involved.

It is human nature to desire to obtain a liberal return. Herein lies one of the pitfalls of investment. It is an unsound policy to judge an investment solely upon the rate of return it offers to the investor. By a careful investigation and selection of investments it is always possible to obtain from 1% to 2% additional income upon one's capital without sacrifice of the safety of the principal. Right here is the opportunity for the investor who has taken the time to study the subject of investments and who has acquired sufficient knowledge to judge the value of securities.

It may not appear impressive to say that an investor can obtain one or two per cent. additional income. Another way of looking at the matter is that if

an investor is able to obtain 6% instead of 4% he has increased his income 50% per annum. With the rising cost of living, any opportunity to safely increase one's income cannot wisely be overlooked.

3. Marketability

The third feature of investments, referred to as "marketability," is the salability of a security for cash. Its importance varies with different individuals. For those who would invest money for a long period of years, the marketability of the security is of little value. To the business man who may suddenly be called upon for a large sum, the marketability of his investments may be a very important matter.

Very often an investor insists upon a degree of marketability in excess of his requirements. Careful consideration should be given to the marketability actually required, for obviously the greater the marketability of a security, a greater part of the selling price of the security must be paid for this privilege.

There are many investments which can be sold on a few minutes' notice during any business day, while there are others which it may take several hours to sell, still others several days or weeks to dispose of, at prices considerably below their real value. There are securities having some value for which no market exists. This feature will be discussed at greater length in the chapter "Buying and Selling Securities."

Very often instead of requiring marketability, the needs of an investor may be fully satisfied by the use of a security as collateral for a loan at a bank. Most investment securities may be taken to a bank and pledged as security for a loan up to 80% of their market value. This is a very attractive feature of investment securities and they are widely used for this purpose. In such a transaction, the owner continues to receive the income from the securities and pays the bank the current rate of interest upon such loans. Very often the rate of income received is larger than that paid to the bank for this accommodation. Upon the repayment of the loan to the bank, the original security is returned.

4. Appreciation

The fourth feature of investment securities is the opportunity they may present for profit through appreciation in their market value. The purchase of securities for appreciation is, however, the field of the business man or speculator and not the investor.

The common stocks of corporations are the medium through which the greatest profits are made in securities. This is naturally so, for common stocks represent the equity in the property; that is, they represent the ownership of the property; whereas bonds and notes represent the funds borrowed by the owners of the property. Common stocks, therefore, carry the greatest chance for both loss and gain, as their value fluctuates with the prosperity of the business.

Investment securities also may present opportunities for securing a profit through appreciation in market value. The selection of securities from this standpoint is very difficult and requires a considerable amount of study and experience, and there can be no certainty of a rise in price. Most investors should entirely disregard the element of appreciation. On the other hand, many business men cannot afford to miss such opportunities. Appreciation results primarily from one or two influences: the increasing prosperity of the corporation reflected in the price of its securities, and the effect of market conditions on the price level of securities in general.

5. Diversification

In addition to the above qualifications of investment, there is the fundamentl principle defined as diversification, which has to do not with the safety of a single investment as with the safety of a list of holdings. In determining the best practice for an individual when making investments, one cannot do better than to examine the principles followed by the great

institutions, which are the largest custodians of investment funds. The savings banks, life insurance companies, and other institutions, which receive the savings of the masses, are charged with earning a satisfactory return thereon, without sacrificing or unduly risking the safety of the principal.

One of the basic principles upon which these investments are made to obtain both security of principal and satisfactory income, is diversification.

Diversification may be secured by purchasing securities issued by different corporations whose businesses are located in different sections of the country. This means to spread out the investment in such a way that no matter what calamity might befall any particular section of the country or particular corporation, the losses resulting therefrom would be only a portion of the total investment fund.

This practice is followed to obtain greater security of principal, but other forms of diversification are followed to obtain not only greater security, but also a higher income.

With this in view, securities may be selected from among the different general classes of corporations, such as, Government and Municipal, Public Utility, Railroad and Industrial. A further diversification may be made as to type of security, such as (a) Mortgage Bonds, (b) Notes, (c) Preferred Stocks and (d) Common Stocks. These types of securities when issued by one corporation would rank as to priority in the same relative way as named. It is possible by careful selection, however, to obtain many notes and preferred stocks of different corporations which may be considered equally as safe as mortgage bonds of other corporations.

A further form of diversification lies in purchasing securities having various dates of maturity. Also diversification may be arranged as to interest or dividend payment dates in such manner as meets one's greatest convenience.

Liberty Bond Dictionary

Opening Price—The first price for the day. In a very active market several prices may be made at the same time. This is called a "wide opening."

Optional Maturity—When a bond due at a specified date may be paid off earlier at the option of the corporation or government issuing it, it has an optional maturity. All the Liberty Bonds except the Third 4¼s have optional maturities.

Outstanding—The amount of a bond issue in the hands of investors. Often less than the total which has been authorized. Sometimes the bonds are not all issued, or the company may buy and carry some of them itself, in which case they are not considered to be outstanding.

Par—The nominal value of a security as stated on its face. In the case of a bond, this is the amount payable on maturity. In stocks, par value has no significance to the holder. For that reason the New York law permits the issue of stocks with no par value.

Part Paid—A security for which full payment has not yet been required by the issuing company. It may of course be bought and sold in this part paid condition. Liberty Bonds were issued payable in instalments but no market was created for the part paid bonds.

Per Cent—Abbreviation for per centum—"by the hundred." Used to mean hundredths. That is, a 4% Liberty Bond pays four-hundredths of its par value in interest each year.

Premium—The excess of the price of a security above its par value. Thus a Liberty Bond selling at 105 would be at a premium of 5%.

Present Worth—The value now of a payment due at a future date. It is the sum of money which, at the specified rate of interest, will amount to the sum due at the date when payable.

Principal—The sum upon which interest is computed.

Quarterly—Some bonds pay interest every three months, and most stocks pay their dividends thus. Liberty Bonds pay interest every six months.

Quotation—A quoted price or bid and asked prices.

Rate of Interest—The per cent on par or principal paid annually.

Investment Inquiries

A letter enclosing stamped self-addressed envelope will bring you a PERSONAL reply to an inquiry on any security in which you are interested. This Investor's Personal Inquiry service is free to yearly subscribers.

PULLMAN CO.
A Business Man's Investment

Pullman Company has no bonds nor preferred stocks, its capital consisting of $120,000,000 in stocks of a par value of $100. The dividend of 8%, and sometimes extra, has been maintained for the past thirty-five years.

The company has shown a decrease in its earnings during the war, but the trend of earnings is somewhat better, at this time. It earned about $11.50 a share last year, which is, of course, not a very wide margin over dividend requirements. The company, however, has a very large surplus and probably it could draw in case of necessity. Pullman is a business man's investment, which you might purchase at present prices. We would suggest that the remaining funds be invested in Southern Pacific or American Tel. Conv. 6s.

BALDWIN LOCOMOTIVE
Its Position Analyzed

Baldwin Locomotive earned $40 a share last year, and is earning about $20 a share this year. Its dividend policy has been a "pet" mystery of Wall Street for some years, and it is entirely "up to" the directors when the company will pay a dividend. They cannot long defer doing so, for the company has a large surplus and can well afford to pay 5% or 6%, or even more if the directors so desire it. The company has been war-prosperous and this prosperity was well discounted in the tremendous rise of the stock in 1915 to 154. Since then the public has made a favorite of Baldwin, and it is the public that held the stock at these high figures. When the present period of re-accumulation is over, the stock will probably sell higher as a dividend at that time is not improbable.

RAILWAY STEEL SPRINGS
Has Good Earning Power

Railways Steel Spring's report for 1918 is not yet at hand but we understand earnings are around $25, compared with $32, last year. Evidently the dividend of 8% is being earned by a very wide margin.

It should not be overlooked that compared with net earnings of over $9,000,000 in 1917, the company was unable to show more than $1,400,000 in 1913, a trifle over $700,000 in 1914, $1,700,00 in 1915. Clearly, the company has been exceptionally war-prosperous.

Its reserve for Federal taxes in 1917 alone came to $3,500,000. This reserve was more than double the earnings of 1913. Further development in connection with this company will be reported in the "Financial News" of the magazine as soon as particulars come to hand.

WESTINGHOUSE ELECTRIC
Its Long Pull Possibilities

Westinghouse Electric is not the kind of stock to purchase "for a turn," but for a long pull, we consider it has possibilities. The market at this writing appears to be in a liquidating position, and when this is over, as will be indicated in the "Outlook," we consider Westinghouse attractive. Otherwise we should say that the new financing has already been discounted in the low price of the stock. We should hardly think the stock should go lower on account of the new financing, but Westinghouse debentures will not resist the general trend of the market, which you can learn at all times by studying the "Outlook" as suggested. In a much lower market, Westinghouse might be accumulated for a long pull, as the stock has good peace possibilities and intrinsic values.

TRANSUE & WILLIAMS
In Strong Financial Position

Transue & Williams total net income for 1917 was $1,240,086. After deducting Federal taxes of $360,000, the net profit for dividends amounted to $830,086, equal to $8.80 a share on its outstanding capital stock. Net earnings for 1916 were $1,286,232, as compared with $671,251 in 1915, $195,155 in 1914, $162,610 in 1913, $105,767 in 1912, and $94,198 in 1911. This company has also profited exceedingly through war conditions. The net tangible value of its shares amount to around $33. We do not advise the purchase of the stock of this company for investment and income at present prices.

The stocks of the newer steel companies like Transue & Williams Steel Forging, United Alloys Steel, etc., have not had a good distribution in the market during the past few years, and they will probably sympathize with the pressure in the steel group generally, regardless of their respective merits. Transue & Williams may be better than the average, but investment opinion does not make much discrimination, and speaking more from the technical situation of the shares than the investment position for a very long pull it might pay you to purchase some of the shares upon a further substantial decline and hold for two or three years if necessary. We recognize the strong position of this company.

CITIES SERVICE 7% DEBENTURE
An Attractive Bond

Cities Service 7% Conv. Debentures have been carefully investigated and we find this bond to be an attractive investment for a business man able to assume the risk involved, since the earnings of the company come largely from oil. However, the company has been

very prosperous during the past two years, and is practically an oil company and not a utility company as in former years. With the outlook for prosperity in the oil industries for several years, there is no reason to believe that this company cannot maintain its earnings power and pay interest on its bond and dividends, particularly on its preferred stock. For a portion of your funds, we believe you are entirely justified in investing in this security.

ERIE 1st PFD.
Dividends Remote

Erie 1st pfd. is not in a strong earnings position, and dividends still appear to be very remote. However, this issue should sympathize in any broad movement in the low priced railroad stocks in general, to a large extent, and it might pay you to hold your stock temporarily. We do not consider it particularly attractive as compared with International Nickel, Great Northern pfd., Gaston Williams & Wigmore, etc. The latter are paying dividends and earning them, and their long pull prospects appear to be at least as bright as Erie 1st pfd.

BETH STEEL "B"
On a Regular 5% Dividend

Although the company recently declared a dividend, it will be noted that the stock is on 5% regular basis with extras. The stock must, therefore, be regarded as a 5% stock, and such being the case, it is selling high enough around 60 to 65. We believe that Beth. Steel "B" is a sale on a rally rather than a purchase or a good, permanent investment. When you have sold, we would suggest a switch into Southern Railway pfd., or Pan-American Petroleum.

NEW HAVEN
Not an Attractive Issue

New Haven is a very long way from the profitable stage, and it may take several years for the company to "come back." Meantime the shares are not attractive, and unless you care to tie up money indefinitely, we believe it would be to your advantage to switch your holdings into California Petroleum common and Pierce Oil. We prefer these two to Sinclair Oil. The latter has possibilities, but we are inclined to believe that Pierce Oil and Cal. Pet. are in a stronger position marketwise.

LIMA LOCOMOTIVE
An Attractive Specvestment

Lima Locomotive has declined, due to dissension that has arisen, and we understand that an attempt is being made to purchase some stock belonging to adverse interests in the open market at a low price. We understand that the company is earning $35 a share before taxes, which may be reduced to about $15 to $20 net. There are sound, intrinsic values behind this stock, and the earning power is demonstrated.

We believe that if you can purchase some of the shares around 30 to 32, to average, you would be acting wisely in doing this. We still regard the stock as an attractive long pull investment.

NORTHERN PACIFIC
A High-Grade Investment

Northern Pacific is a high grade railroad investment, and under the plan of Federal guarantee, will have about 9.5% available for dividends, compared with its present dividends of 7%. At any price around 95, we consider the stock an investment bargain, and it possesses possibilities of selling well above par sooner or later. The company is earning its dividend by a very wide margin, and its earning power is continuously on the increase.

Northern Pacific is also a high grade investment, and owns equally with Great Northern a 50% equity in the Burlington Railroad. However, Northern Pacific shows a somewhat better earning power than Great Northern pfd., and of these two stocks we believe Northern Pacific is the better investment, to be purchased whenever the price is between five and seven points lower than Gt. Northern pfd., which often happens. We believe you need have no hesitation in purchasing Northern Pacific whenever the market is particularly weak, such as at present. Purchases to be made upon a scale say three to five points apart. In this way you will not have any embarrassment through a decline, and would regard the same as an opportunity to buy it yet.

REPUBLIC IRON & STEEL
A Good Semi-investment

Republic Iron & Steel is a semi-investment only. With earnings at the rate of approximately around $18.94 a share for the first six months of this year, $51.88 a share in 1917, and $47.67 in 1916, it might appear on first thought that the stock is selling low, but the permanence of these earnings seems to be doubtful. Republic for the five years prior to 1916 averaged only $2.26 annual earnings a share. This was not a good showing.

As a consequence the company has suffered heavily through excess profits taxation. However, it does not appear probable that the company's earnings will fall to the low figures of the pre-war period, because of the large sums which have been put back into the property from its recent earnings. While its earnings are in excess of dividend requirements, we do not look for a payment of any larger dividend because of its high earnings. The company requires large sums to carry its inventories and seems to be conserving its cash resources rather than using them to pay large dividends. This stock is an attractive semi-speculative investment and should be held by you as such if you can assume the risk.

WILSON & CO. 6s
A Safe Note

Wilson & Co. 6s are a business man's investment, and the only reason for the decline is probably competition with other good issues, which have come in to the market in the last few months. Even Liberty Bonds declined heavily through this competition, and we believe the decline to 92 has no bearing upon intrinsic values, equities or safety. The company is earning a very large margin over interest requirements and the equities are very large indeed. As a 7% yield note, we would consider these especially attractive now.

DISTILLERS' SECURITIES
At a Speculative Level

Distillers' Securities was fully discussed in the March 2 issue of The Magazine of Wall Street, and this department agrees with the conclusion of the author. We suggest that you study the article, which will give you much more information than we can in a letter. The stock is in a speculative position entirely at this time, and we do not regard it as an investment at current levels, even though it may rally somewhat in the near future. You are assuming a speculative risk, in our best judgment, in holding your shares, and unless you can afford to continue to take the risk we suggest the advisability of closing out your holdings at an early favorable opportunity.

Distillers has good peace prospects, but if you have a good profit, we suggest that you take it. The stock is selling at a somewhat speculative level, and although it will possibly sell higher we expect some good reactions and you will again have another opportunity of purchasing, we believe, at a lower and more attractive level.

We suggest that you protect your stock with a stop-loss order of say three points, and follow up any further advance in the stock with your stop and therefore be prepared to liquidate upon any further substantial bulge.

VACUUM OIL
A Strong Standard Oil Issue

Vacuum Oil Company was incorporated in 1866, was formerly a subsidiary of Standard Oil of New Jersey, but separated in 1911. It owns refineries, pipe lines and plants and by far the larger portion of its products is exported. The company has a very expensive list of foreign offices for marketing its products, many of them by foreign subsidiary companies, several of which operates refineries and plants for the manufacture of lubricating oil. The capital is $15,000,000, par $100, and the company has no bonds. The company has an excellent dividend record as well as a record of extras, and in 1912 gave stockholders the privilege of subscribing for new stocks at par to the extent of 500% of their holdings. That year the company redeemed its bonds and paid its indebtedness of over $8,000,000 to the Standard Oil Company of New Jersey. It has been paying dividends at the rate of 8% for the past three years. Its net profits rose from a little over $2,000,000 in 1914 to nearly $7,000,000 in 1915, over $9,000,000 in 1916 and over $12,000,000 in 1917. The surplus is now $8,000,000, compared with $5,500,000 in 1915, and $1,000,000 in 1914. We are quoting round figures.

The stock is an investment for a very long pull, of say one or two years.

TENNESSEE COPPER
A Good Switch Mentioned

Tennessee Copper has never settled its law suit with Russia, and has set aside a contingent fund to meet this. We are inclined to believe that the action will be dropped eventually. The stock is a fair speculation, but we would not suggest a purchase at this level. If you are a holder, we believe it would be much better to switch into Pierce Oil and Willys-Overland equally.

ANACONDA
Has Good Possibilities

Anaconda is one of the leading copper-silver stocks, and is a diversified investment through the activities of the company in various branches of industry. It should benefit by present high prices for copper and the current price of silver for some time. Even if the price of copper should come down, and the dividend of $6 reduced somewhat, the shares are apparently selling low enough to readjust themselves to such a probability. Anaconda has averaged about $16 annually per share for the past three years, "including the earnings of owned subsidiaries," and we believe that it has good speculative possibilities for a long pull.

We consider Anaconda, Magma, Ray Consolidated and Calumet & Arizona about the cheapest at this time, and would suggest that you purchase half your requirements now and await developments before spending further money in this way. The copper situation is somewhat uncertain and a conservative attitude is the best.

TEXAS & PACIFIC—U. S. RUBBER
An Oil Issue?—A Good Rubber Stock

Texas & Pacific is a speculative issue, as the move recently is based upon the company's holding in the Ranger field of Texas. It is also believed that the company will benefit by profit development over its lines through the opening up of this field on a large scale. When the present movement is over the stock might sell at a substantially lower figure.

U. S. Rubber discussed in the November 9 issue of the magazine, and we still regard the long range prospects and the future of this stock as bright, as the war earnings of this company has had the effect of placing substantial equities behind the common stock, and this issue, which originally did not have a high investment rating, is now upon a much firmer basis. However, the shares have already advanced from 50, and at current levels, prosperity is discounted to some extent.

FEDERAL MINING & SMELTING PFD.

Has Good Prospects

The stock has been on a 7% dividend basis since March, 1917, and there are 9¾% dividends in arrears. At current levels there is a possibility that a part of the arrears may be paid off. The stock is selling at a low price because earnings were formerly unsatisfactory. The present buying is based on what we believe to be a well-grounded expectation of a substantial gain in earnings. For the quarter ending October 31, 1918, the company shows operating profit of $371,971, compared with $431,-618 in the corresponding period of 1917. No account is taken of ore depletion or depreciation, which will be adjusted at the end of the year. The October profits was $130,295, against $50,188 a year ago.

The company does not furnish any more monthly regular earning statements. We believe it would be well to hold your stock and not sell during the present decline in the market.

ATLANTIC, GULF & WEST INDIES

A Speculative Investment

Atlantic, Gulf & West Indies, discussed in the April 13 and June 22 issues of The Magazine of Wall Street, has been war-prosperous, due entirely to abnormal war conditions, and although the company is in a fair way to establish itself upon a permanent high earnings basis, such prosperity must not be regarded as permanent. It should be remembered that the stock has had a large advance since the beginning of 1916, and at current levels have more or less discounted war prosperity and high dividends now being paid. The stock is only a speculative investment.

RAY HERCULES

Has Good Long Pull Possibilities

Ray Hercules has declined because since the new mill was erected the test has been somewhat disappointing. We believe, however, that the company has been running some low grade stuff through the mill for the purpose of testing out the plant, and certain rumors have come from the mine to the effect that the grade of the ore reserves is low. But outside information might be misleading, as the company is not yet endeavoring to show large earnings, but to place its enterprise upon a commercial basis.

We believe that ultimately all will work out to the advantage of stockholders and we would say that Ray Hercules has also declined somewhat in sympathy with the market as a whole, and when a better tone prevails, Ray Hercules should advance with the others.

BARNETT OIL & GAS

An Undeveloped Promotion

Barnett Oil & Gas was brought out on the Curb when the speculation in the oils was at its height. The company owns acreage in West Virginia, and more recently acquired some holdings in the Irvine, Kentucky field. A refinery was also purchased at Chicago, and this including some other acquisitions which were filled with optimistic statements as to the company's earning power and future. The company is liberally capitalized, having 2,500,000 shares (par $1) outstanding. The stock has been going down ever since the advertising campaign was launched. While the stock may have speculative possibilities, it is not the kind we can recommend either for speculation or investment. We believe the shares are unattractive.

BRITISH-AMERICAN TOBACCO

Trend of Earnings

British-American Tobacco was analyzed in the June 22, 1918 issue of the magazine. The company is a well managed enterprise, and occupies a strong financial position. Compared with 29% paid on the common stock in 1917, the company earned 48%. Against 30% paid in 1916, the company earned a little over 40%. The trend of earnings has been on the increase since 1912, and the company has taken advantage of its large war earnings to strengthen its working capital position. The cash in hand last year was $8,500,000, and about $13,500,000 owing by creditors. Its net working capital was $45,000,000, as compared with $37,500,000 a year previous and $34,000,000 in 1915. We do not think that the present prices for the shares discount its entire possibilities, although they have advanced from around 15½ in the last seven months.

We believe there is considerable possibility for the shares to advance substantially, the dividend is safe, and we consider British-American Tobacco a desirable investment for a business man.

THE TEXAS COMPANY

Earning Power

We have no exact data upon which to estimate the probable effect on the earnings of Texas Company, increased by an additional well, flowing 20,000 barrels a day. One could conservatively estimate that after such a well "settled" the approximate output would be about 5,000,000 barrels a year, which would bring in a revenue of $10,000,000 to $12,000,000 annually gross. The net profits would be between $2,500,000 to $3,500,000, judging by past performances of this company, as revealed in its various income accounts. Upon its present capitalization (bonds and stock included) we figure that such a well would add between $5 and $6 a share annually to earnings. Such additional earnings would be *available* for but not necessarily *payable* in dividends. The company could, following its usual policy, capitalize the additional value by issuing new stock, together with "rights," as it has done in the past. We believe that the price does not place too high a valuation upon the enterprise, and although this estimate of additional value is very approximate, we believe it to be fairly conservative.

RAILROADS AND INDUSTRIALS

Inconsistencies in Stock Prices

How Far are They Due to Actual Conditions and How Far to the Erratic Variations of Public Sentiment, or to the Prejudices of Investors?

By WILLIAM T. CONNORS

THE investor who goes carefully over the weekly table of stock transactions which appear in his newspaper every Monday morning, comparing prices, dividends and yields on the money invested, will find a good many striking differences between stocks which are apparently much the same in general character and outlook.

Bethlehem Steel B, for example, pays 10% dividends and yields 17% annually on the current price of 59, while Baldwin Locomotive pays no dividends and yet sells higher—above 66 as this is written. Are Baldwin's prospects really so much better than Bethlehem's actual performance? Or is one of these stocks out of line, selling at a price which does not truly represent its value?

U. S. Steel preferred, paying 7%, sells at 115, to yield 6.1%; while Bethlehem Steel 8% preferred sells at only 103, to yield 7.8%. Is there really any such difference in these two high grade preferred stocks as to warrant a spread of almost 1¾% between their yields?

Numerous other examples may be selected, and they are of much importance to the investor. If Bethlehem B's prospects are in reality as good as Baldwin's, then the holder of Baldwin is losing 17% annually on his money in addition to missing a saving of $5 a share which he would gain by the exchange. On the other hand if the abnormal yield on Bethlehem B indicates that the stock is unsafe to hold, the owner of that issue might have occasion to regret his cupidity in seeking a big yield on his money.

Let us briefly examine a few of these contrasts, beginning with the examples just quoted. In each case we will compare annual earnings, current dividends, prices and yields.

	Earned 1917	Div.	Price	Yield
Beth B..............	43%	10%	59	17%
Baldwin	40	0	66	0

For 1918, Beth. B's earnings have been approximated at 21% in a preliminary estimate. The Baldwin management has not given out any estimate, but it is not believed that earnings after taxes will exceed 30%. There is no such difference in earnings as would account for the above prices, nor do we get any light from the book statements of assets, which at the end of 1917 were about $198 per share for Bethlehem common and $113 per share for Baldwin.

The reasons are found in the peace record of the two companies, and in the rapid increases in Bethlehem's capitalization. A great many investors believe that we shall now go back to something like pre-war conditions. Baldwin's average earnings for 1911-12-13 were at the annual rate of 11.4%, and there has been no increase since in stocks and bonds outstanding. In the mean time its gross sales have multiplied nearly four times. This has been possible because of the great enlargement of the plant, paid for out of the earnings. The company's total income before the war was over 13½% of its gross sales. Assuming $60,000,000 gross sales as a peace basis (against $98,000,000 in 1917), peace earnings on the common stock should be nearly 20% annually.

But Bethlehem Steel's earnings in the years 1911-13, if applied to its present greatly enlarged capitalization, would pay only a little more than half of the interest and dividends *which precede the common stock*. Bethlehem, therefore, is a new proposition as compared with pre-war conditions. It has quadrupled its capitalization since 1915, and in addition has earned a surplus in the four years of about $136 a share for the common stock (Class A and Class B stock have the same claim on earnings). Most of this surplus has, like the new capital, gone into construction.

With big taxes, and with an increase of nearly 40% in the steel-producing capacity of the country, investors are very much at sea as to what this big new Bethlehem Steel can do under peace conditions. Hence the low price of its stock. Even the company's officers seem to have the same doubts, for they call 5% of the Beth. B dividend regular and the remaining 5% extra. But even at a 5% rate, the price of 59 would mean an 8½% income return; so it would certainly seem that investors are too pessimistic just now about the prospects for this company.

	Earned 1918	Div.	Price	Yield
U. S. Steel pf	38%	7%	115	6.1%
Beth. 8% pf	53	8	103	7.8

The position of these two stocks is much the same. It is true that U. S. Steel has not increased its capacity to any such extent as Bethlehem, and has not increased its capitalization at all. But on the other hand there is only $29,724,000 of the Bethlehem 8% preferred outstanding and its dividend claim comes next to the bonds and notes, so that it is hard to conceive of conditions under which its dividends would not be earned; while there is $360,000,000 of U. S. Steel preferred outstanding.

U. S. Steel preferred sells too high because of the sentimental value of its being the preferred stock of the biggest steel company in the world, the most widely known and the greatest favorite with the public. Beth. Steel 8% preferred sells too low because it was recently issued and because of the general fogginess in the minds of investors about the company's peace outlook. It has every appearance of being a splendid investment bargain.

In connection with both of these Bethlehem issues it should be borne in mind that a stock which has been outstanding for years has more time to become permanently lodged in the hands of investors than a stock recently marketed, as is the case with Beth. B and 8% preferred.

	Earned 1917	Div.	Price	Yield
Reading	14.8%	8%	78*	5.1%
Nor. Pac.	11.9	7	90	7.8
So. Ry. pf	23.4	5	67	7.5
Colo. So. 1 pf	42.0	4	50	8.0

*$50 par.

The disproportionately low yield on Reading as compared with practically all other railroad stocks is due partly to the belief in the great ultimate value of its coal and iron holdings and partly to the limited amount of stock outstanding. The total common stock is $70,000,000, but the N. Y. Central and B. & O. own about 43% of it, leaving only $40,000,000 for the market out of Reading's total capitalization of $292,000,000. This is a small floating supply, in view of the considerable speculative activity in the stock, and undoubtedly has a good deal to do with the relatively high price.

All railroad earnings are now running a good deal less than in 1917, which is the latest full year available, and of course there is great uncertainty as to what the Government will do with the roads. These facts are perhaps sufficient to explain Northern Pacific's low price, although it has a valuable equity in C. B. & Q's earnings.

Why Southern preferred, earning several times its 5% non-cumulative dividend, should sell so low is more difficult to explain. It is probably due to the checkered history of the road in the past, for the "conservative investor" has a long memory. As a rule he is longer on memory than he is on

foresight. The stock discontinued its dividends in 1914 and resumed them in 1917. But average earnings for ten years ending 1917 were 11.9% for the preferred, and out of this total of 119% earned only 18½% was paid out in dividends, showing the tremendous extent to which the earnings have been plowed into the property. That is one reason why earnings climbed steadily from 2.8% in the year ended June 30, 1915, to 23.4% in the year ended Dec. 31, 1917. The territory of this road is only partly developed and a further gradual growth of earnings is naturally to be anticipated. The stock looks cheap.

Colorado & Southern 1st preferred sells on an 8% income basis in spite of the fact that its dividend was earned more than ten times over in 1917, a rather extraordinary state of affairs. Average earnings for ten years have been about 24% for this stock, or six times its dividend requirement. The conservatism of the company in payment of dividends is doubtless the principal reason for the low price. Dividends were discontinued in 1914, resumed at a 2% rate in 1916, and the 4% rate was restored for 1917. Dividends were also deferred for a time when the Government took over the railroads, so that only 2% was paid in 1918. It would certainly seem that there is no reason for any further interruption of the 4% rate, as surpluses after dividends have been very large for the past four years.

	Earned	Div.	Price	Yield
Am. Sugar	**20.1%**	**7%**	**114**	**6.1%**
Am. Beet S	**10.6**	**8**	**68**	**11.8**

The above compares American Sugar's earnings for the calendar year 1917 with Beet Sugar's for the fiscal year ended March, 1918. In the preceding years in each case, American Sugar earned 18.5% against 30.6% for Beet Sugar, so that the two companies' average earnings for the last two years are about the same. Yet American Sugar sells so high as to yield only a shade more than half as much income on the investment as Beet Sugar.

The difference lies in the consistency of American Sugar's earnings over a long period, while Beet Sugar has been at the mercy of a protective tariff which might or might not be continued. American Sugar paid 22% dividends in 1893, 12% 1894-9, 6½% in 1900, 7% 1901-17 and 7% plus 1½% extra in 1918. Beet Sugar, on the other hand, is a much younger company. Organized in 1909, it paid 5% in 1912, 1¼% in 1913, nothing in 1914-15, 6% in 1916, 20% 1917 and 8% 1918.

It has only been since the war, with European sugar production almost suspended, that Beet Sugar common has shown high earning power. With the return of peace, investors are in doubt as to the company's ability to continue its 8% dividends permanently. Yet American Sugar Refining has shown a deficit after dividends in five out of the last ten years; and in connection with its peace prospects, we note that this deficit after dividends was shown in five out of the eight years ending with 1915. On the other hand, on the last figures given out this company had net *liquid* or semi-liquid assets equal to over $125 a share for the stock, and at the end of 1917 its actual cash was equal to nearly the par value of the common stock. Since there are no bonds, and the value of the real estate, plant, etc., is about equal to the preferred stock, this leaves the common in a very strong asset position.

	Earned 1918	Div.	Price	Yield
Nat. Bis. pf	**20.7%**	**7%**	**119**	**5.9%**
Woolworth pf	***88.0**	**7**	**117**	**6.0**
Case pf	**†22.8**	**7**	**93**	**7.5**
Willys-Over. pf.	**†37.6**	**7**	**88**	**7.9**

***Estimated. † For 1917.**

In view of the attractiveness of good preferred stocks at this time, the above price and yield comparisons are especially interesting. The 1918 earnings on J. I. Case Threshing preferred will probably exceed 1917. Willys-Overland's 1918 earnings are uncertain, but they should equal those of National Biscuit and Case at any rate.

The fact that National Biscuit has paid its preferred dividend regularly since its organization in 1898, with a very high degree of stability in earn-

ings in times of poor business as well as in good times, gives that issue a fine rating as a "seasoned" investment. It is also true of Woolworth that its earnings are stable and little influenced by changes in general business conditions.

On the other hand Case preferred appears to be selling below its value. Its dividend has been paid regularly since 1912, and the company is not only prosperous but is steadily growing and increasing its earnings. Since 1914 this company's bonds have been cut down from $10,500,000 to $3,200,000. Its real estate and plants are now about equal to the par value of the preferred, and working capital also is usually considerably above that value. From the point of view of both assets and earnings the position of this stock seems well assured.

Willys-Overland has no funded debt and its tangible assets are equal to more than 2½ times the par value of the preferred stock. Earnings for this issue are abundant and the company's general prospects are good. The dividend has been paid since 1913. The company is well managed and I believe the stock will sell higher as investors come to realize the permanent basis of the business.

"A POLICY OF CONFISCATION"

THEODORE P. SHONTS, president of the Interborough, recently addressed a letter to various civic and commercial organizations, in which he said that, when the Board of Estimate in its report, denying an increase of fares, said that "there appears to be no reason why the burdens caused by the war or otherwise ought to be shifted from the holders of Interborough securities to the traveling public," the board "did nothing less than make a frank announcement of a policy of confiscation."

Mr. Shonts asserted that, in the traction controversy, no question of economics or law was involved, but only the question of public policy. Then, after asking the question, "Does the public want the subways and elevated operated by the city?" in parallel colums he indicated as follows what in his opinion would happen under municipal operation and under private operation.

UNDER CITY OPERATION.	UNDER PRIVATE OPERATION.
Increase of fares to meet costs due to war, after having violated the spirit of the agreement with the Interborough and after destroying its credit and by that act shutting off all future investment of private capital necessary for development of the city's transportation.	Increase of fares to (1) meet costs due to war, and (2) to permit current payment of preferential due Interborough, and (3) to make the city's investment self-supporting and thereby avoid increase in taxes otherwise necessary to meet interest on city's investment.
Operating officials subject to political change every four years or oftener.	Tenure of position dependent upon demonstrated and maintained efficiency.
Governing policies subject to political exigency, decisions to hold until those exigencies change.	Governing policies determined jointly by company and public authorities; decisions to hold so long as they are beneficial.
Political incentives to govern employes.	Efficiency incentives to govern employes.
Low discipline and morale, with high accident rate.	High discipline and morale, with low accident rate.

The letter from Mr. Shonts concluded as follows:

"Inasmuch as the question at issue is not the profit of the company, that being limited by the terms of the contract, the only immediate practical question is whether the city should, at no loss to itself, protect the credit of its partner over the period of abnormal prices due to war and until normal conditions are restored.

"The President of the United States, the Secretary of the Treasury, and other Government officials have publicly asked local authorities to adopt such a policy. Some 400 other communities, including several in New York state, have already done so. They have considered it unwise public policy to cripple their vital utilities. But the present city Government holds that all these 400 communities have been false to their trust in refusing to act the Shylock in demanding what was 'nominated in the bond'?"

American Hide & Leather's Future

The "Inside" of Past Troubles—Probable Back Dividend Plan and Its Effect On Stocks—A Trip To the Lowell Plant

By A. U. RODNEY

MYSTERY is the guiding spirit of stock market moves. There is a well known phrase in Wall Street, "the news is out," which only means that the major speculative incentive in the security to which the news referred has been taken away by the announcement.

The idea is to "find the pea under the shell." In the case of American Hide & Leather, the "pea" takes the shape of the plan that will be adopted for refunding back dividends on the preferred stock.

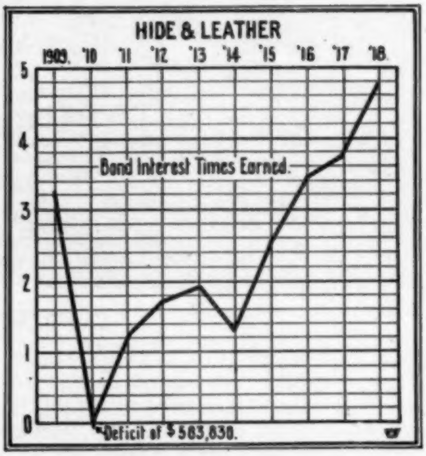
On again, off again, has been the policy for the last two years toward this matter and the market has had a merry time trying to guess what would be done. The situation is similar to those that existed in Union Bag and Paper, American Writing Paper, and on a larger scale, in Mercantile Marine. Just now, two factions are fighting tooth and nail to establish their respective contentions, one that American Hide & Leather preferred is worth more than it is currently selling for with back dividends paid up, and the other that the stock is selling too high no matter what plan may be promulgated.

Is Hide & Leather worth its selling price?

How will the "most logical" plan be reflected in the price of its securities and what is the company's position and outlook?

A Trip to a Tannery

In the heart of the Eastern leather district, at Lowell, Mass., is located a representative tanning plant of the American Hide & Leather Co. Few appreciate what vast machinery, how many complicated processes and what infinite care and expert management it takes to convert an animal skin into a finished piece of leather. I walked, in appreciative amazement, from one department to another and viewed first-hand the tanning of a hide. From the hide "reception room" to the curing, the tanning, bleaching, dyeing, rolling, drying, splitting, graining and finishing, the Lowell plant is complete in every respect. Limited space prevents the description of these interesting processes in detail, but I saw enough to convince me that this plant was carefully and efficiently managed



and that if American Hide & Leather has had a hard go of it during the last 19 years, such practical tanners as Mr. Hall, the Company's first Vice-President, and Mr. White, this plant's Superintendent, were not responsible.

Of course the Lowell tannery is only one of the many plants and factories owned by this company. The scope of its business covers the tanning and curing of animal skins as well as the manufacture, cure and trade in skins, hides, leather, and kindred prod-

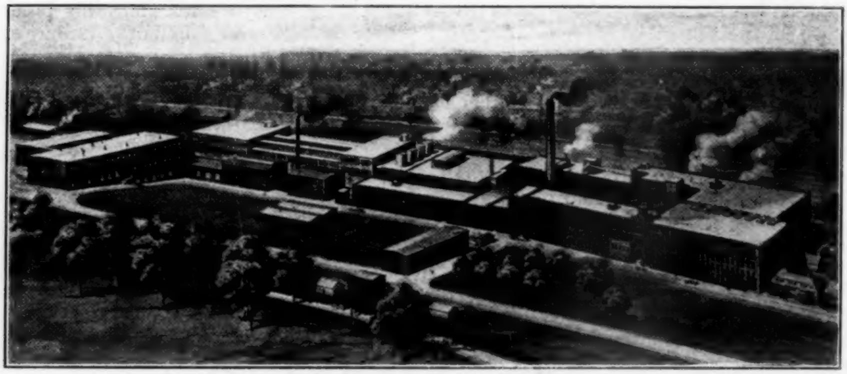
ucts. Its plants are located in seven towns and four states and cover the operations of 23 firms that originally went into the combination. The scope of the business covers manufacture of all kinds of shoe leather (except sole leather), black and Russian calf skins, enameled and patent leathers, cowhide leathers, and is the originator of the world known "box" calf. Its plants produce over 2,750,000 hides and 5,000,000 calf skins, a large part of the upper leather output of this country.

An Inside Story

When the big combination was effected in the Spring of 1899, the bankers responsible for the financing plan, depicted the future in rosy terms. The companies casting their lot under one organization were said to represent 75% of the upper leather business of the United States. Those were the days of trusts and giant combinations, and it was pointed out that instead of each factory producing all classes of goods embraced in the trade, the new organization would diversify its operations so that each factory would manufacture the class of goods for which it was peculiarly adapted by situation and construction. This would bring about a big saving in labor and cut the cost of the manufactured articles.

There was one "nigger in the woodpile" which was overlooked. The leather men owning the separate factories maintained that it took a long time to establish successful leather concerns, and therefore wrote in long experience and good will at a very optimistic figure. Thus American Hide & Leather was handicapped at the start with a topheavy capitalization.

Then the fun began. Overwhelming difficulties in the shape of harmonizing old competitors and making a working organization out of the original opinionated officials brought the topheavy ship to the brink of disaster several times. The plants were bonded up to the last stone; good leather men, feeling that the ship was sinking, withdrew and started competing concerns; in short, almost every conceivable difficulty had to be faced.



Lowell, Mass. Tannery

The struggles of the few who determined to see the proposition through can be appreciated in the face of such difficulties as these. It took 19 years to do it but in that period, this group succeeded in piloting the craft into calmer seas, until today the company can lay claim to being almost balanced.

To do this, the American Hide & Leather Company had to make its product better than any one else. The few men who stuck through thick and thin, giving up the prospect of improving their own financial condition by being in business for themselves, have the satisfaction of duty well done.

Elusive Back Dividend Plans

For over two years, plans for wiping out the 117% back dividends on the $12,500,000 preferred stock have been presented with regularity. These have all been interesting and have cared in a way for the needs of the company but were not acceptable to officers who are large preferred shareholders.

The chief trouble with all of the plans has been briefly that all require an increase of dividend obligations. That is, if new preferred stock is given, more money is required for dividend payments. Another plan provided for the issuance of a second preferred stock but this was not satisfactory. One of the officers tells me that the preferred stock issue will not be increased if he can help it. He points out that the company's chief difficulties heretofore have been the large dividend and interest requirements.

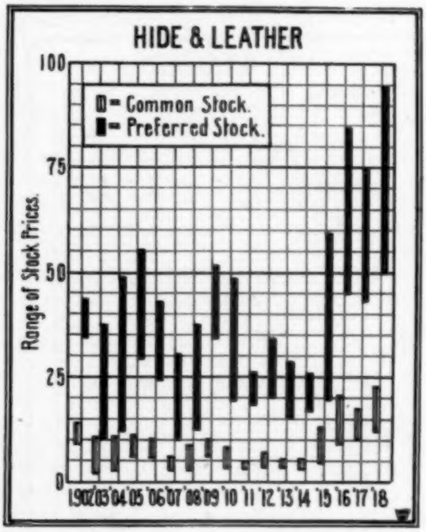
What is likely to be the plan adopted? The latest speculation on the probable plan figures that the outstanding bonds will be paid off when due next December; the present preferred stock will receive new 7% preferred, dollar for dollar, and new common stock will be issued in the ratio of one share of new for two shares of old now held, and back dividends will be paid off in common stock.

This is the most logical plan that has come up for consideration so far. Under it the company will not be obligated to pay additional preferred dividends and it makes very little difference in the eyes of preferred shareholders who own the company what becomes of the common (as the common at the best represents a hope and a meager one at that).

Assuming that this will be the final solution of the difficulty, how are investors to regard the securities at current levels? First let us get a bird's-eye view of the financial structure and earnings.

Finances Past, Present and Future

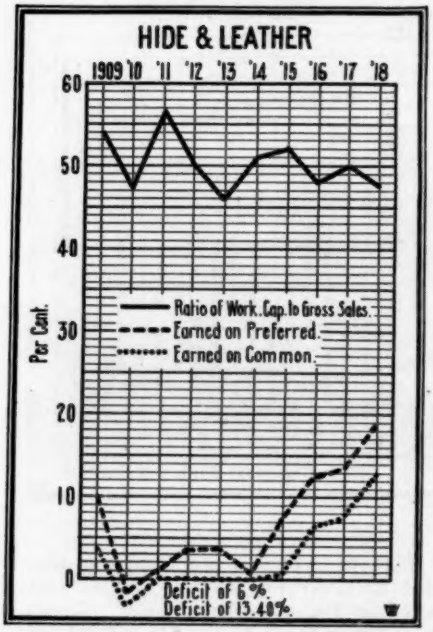
For the eight years prior to 1916, the annual average earnings on the preferred issue amounted to only 2.4% and for ten years from 1908 to 1917 inclusive, the net profits available for dividends averaged $620,385 annually or 4.77%, which is an annual deficit of 2.23% upon the 7% dividend requirement. Only 10½% in preferred dividends have been paid since organization and these were on account of 127% dividends in arrears, making the arrearage today 117%, or over $15,000,000. The earnings on the common stock, of course, have been considerably less than nothing.



War prosperous, the company was able to make progressive strides forward in the last three years. Gross sales increased from $15,448,241 in 1911 to $29,454,428 in 1918 and total income grew from $818,934 to $3,162,257. It is well to bring out here that the ratio of net operating profit has increased tremendously during the last three years. From 1908 to 1914 inclusive, net operating profits on gross sales averaged 5.50% while in 1916 they were 9.60%, in 1917, 10.09% and in 1918, 10.73%. These figures show that the elimination of competition during the war brought about an abnormal rise in profits and it cannot be reasonably expected, with conditions return-

ing to normal again, that this ratio will be maintained.

One of the most unfavorable factors in the whole Hide & Leather situation is the small reserve set aside for depreciation of inventory. In 1917, inventory stood at $13,668,202 and a reserve of only $100,000 was set aside for depreciation of this account. In 1918, the situation was a little better in that an inventory of $11,889,481 was carried with a depreciation of $350,000. It does not take much figuring to show



that the reserve, even in 1918, is insufficient.

As far as assets are concerned, they have been mainly increased in the way of inventory. Current assets grew from $9,408,679 in 1911 to $17,637,601 in 1918. The proportion of cash to inventory or total assets is not well balanced, in that current liabilities total $3,623,459 in 1918 and are not offset by assets of a liquid nature, exclusive of inventory.

The surplus account is satisfactory, but it must be borne in mind in this connection that back dividends were not paid and therefore the surplus appears larger than it should be. There is one good feature of Hide & Leather's financial position and that is its sound working capital position. This item has increased from $9,412,295 in 1909 to $14,014,142 in 1918, but this one item does not offset the many unsatisfactory features.

The Stock's Position

It is true that the American Hide & Leather Company is entering a new era in its financial and business history. But are the stocks of an overcapitalized hulk, now selling around their highest levels on war prosperity and back dividend plans, worth the money? If the "most logical" plan is adopted, room for speculation on the preferred issue is afforded in that preferred holders will be interested in what they can get for their common stock (the new common stock given for back dividends). The fact remains nevertheless that the preferred issue is not a tried 7% earner and although the financial position of the company will be bettered with the bonded debt out of the way and enough earning power may be developed to pay the preferred dividend, there are many facts in the situation that make this doubtful.

A strong pool is behind this issue and may carry the price higher, but the current figure of 89 discounts most of the favorable features, and taking into consideration the very uncertain future for the leather business in general, and for American Hide & Leather's share of it in particular, the issue appears to be selling about high enough.

The common stock represents nothing more than hopes and it will be a long time, in my opinion, before enough will be earned to even think of a dividend on this issue or its successor. Any back dividend plan that is adopted will certainly not favor the common shareholders as against the preferred. So the common stock is a poor speculation at the best.

Cuba Cane's Bond Issue

Stockholders Demand Light on Management—Results Compared With Cuban American

By PRESTON S. KRECKER

RECENT announcement that the Cuba Cane Sugar Corporation would create a mortgage on its property and issue $25,000,000 in bonds has brought to a head long brewing dissatisfaction with the way things have been going in that company. Three years ago the Cuba Cane Corporation was launched amid a blare of trumpets as the last word in sugar production. The list of directors was distinguished; the banking affiliations among the foremost in Wall Street. The promoters of the new company announced that through consolidation of upwards of a score of small, independent sugar properties in Cuba, economies would be effected and modern methods adopted which would redound to the benefit of stockholders. The preferred stock, par $100, was offered to the public at 97½. The common stock, no par value, was put on the market around 50. In the height of initial enthusiasm over the glowing outlook the preferred stock was bid up to 102 and the common stock to 76⅜. They have never sold at those prices since. On the contrary the trend of both issues has been downward. To-day the preferred is quoted at 76 and the common at 23.

The third annual report of the Cuba Cane Sugar Corporation, issued last month, covering the year ended September 30, 1918, showed a decrease of $3,188,593 in earnings on the preferred stock compared with 1917. Surplus after preferred dividends for the crop year of 1918 was only $626,424. It compared with a surplus of $3,815,017 for 1917, which was the first full year of the company. Net working capital of $5,665,519 at the end of the crop year 1917 had been converted into net current liabilities of $2,035,580 last year. The company reported a floating debt of $12,000,000. Earnings of the company on property investment have been growing smaller with each consecutive year. This is disclosed in the following comparative statement of property and earnings for the three years of the company's existence:

	Value of Property	Earned on Prop. Value
1916..........	$57,636,115	21.1%
1917..........	62,898,964	11.6
1918..........	74,522,733	5.5

The third annual report came as a shock to stockholders. They could not understand why, during a year of great prosperity in the sugar industry, their company, the largest producer in the Cuban field, had to report a severe slump in earnings and a large floating debt. "What is the matter with Cuba Cane Sugar?" was asked on all sides.

Stockholders Protest

Later, when it was announced that the directors had recommended the creation of a mortgage, criticism of the management crystallized in a protest from a large group of preferred stockholders, headed by Henry Evans, who refused to give proxies for the special meeting of stockholders called for February 11 to authorize the mortgage until they had received definite assurances from the company which they demanded as a protection of the preferred shares.

Two demands were voiced by the Evans group. These stockholders in the first place asked for the creation of a sinking fund, to be provided out of earnings after preferred dividends, by which the retirement of the proposed bonds should be accelerated. They further asked for an investigation of the management of the company from its inception.

Both of these requests were granted after conferences between representatives of the two factions. The direc-

tors have agreed to establish a sinking fund. They also have assented to an independent expert examination of the properties and management of the company from its inception. The acquiescence of the company in these matters resulted in withdrawal of the opposition to the bond issue. It may be said that a truce has been declared pending the results of the promised examination.

The Evans group of stockholders suspects that bad management is responsible for the decline in earnings of the Cuba Cane Sugar Corporation. They wish to find out whether their suspicions are justified and if so, what can be done to correct internal faults. One of the things some of these preferred stockholders want to know is whether the organization of the Cuba Cane Sugar Corporation was utilized to enable somebody to get rid of unprofitable sugar cane properties. If this should prove to be the case, they will demand that the unprofitable properties be eliminated.

They also want to know whether the Cuba Cane Sugar Corporation has made contracts with an "inside" company to act as its selling agent. It is said that the Cuba Cane Company is paying a commission of one per cent flat and an extra commission of one-quarter of one per cent on all sales of its sugars. Stockholders are curious to know whether this report is true. If so, they will ask why it was necessary to pay any such commissions when the customary sugar broker's commission is considerably smaller. They also will ask why any contracts with a selling agent were necessary during the last year when there was only one buyer of sugar, the United States government, which fixed the price of all sugars it bought. Were commissions paid during the period of federal control of the sugar consumption, they inquire.

The price paid for sugar last year was a full one. The government fixed it at 4.60 cents a pound f. o. b. In its last annual report the company gives the comparative f. o. b. price per pound received during the last three crop years, including the proceeds from by-products such as molasses, as follows: 4.112 cents in 1916; 4.479 cents in 1917, and 4.630 cents in 1918.

Yet the company earned only $1.25 a share on its common stock last year compared with $7.38 a share the previous year when it received less for its sugar.

It will be recalled that the management felt impelled to explain at the end of 1917 why the company earned only $7.38 a share on its common stock during that year. This was due, so it said in the annual report for that period, to "the lower yield of sucrose in the cane and to the Cuban insurrection." The sucrose content of sugar cane was higher last year than in 1917 as was shown by the annual report. The average per cent of sucrose in the cane of the 17 plantations of the company during the three crop years of its history was: 13.87 per cent in 1916; 13.00 per cent in 1917, and 13.31 per cent in 1918.

The report states further that "with only 16,316,471 arrobas more cane ground during the 1917-18 crop, your company made 351,704 bags in excess of the 1916-7 crop." Not only was the sucrose content of the cane larger than that of the previous year but the company had no insurrection to contend with and therefore no losses through burning of its cane.

Higher Cost of Production

Evidently some other cause existed,

TABLE I

	Cuba Cane			Cuban American		
Production (tons)	521,328,	inc.	48,786	246,393,	dec.	19,864
Total Acreage (acres)	373,800,	inc.	19,300	521,104,	inc.	52,123
Operating Profit	$7,390,603,	dec.	$3,704,927	$10,249,273,	dec.	$ 572,686
Net Profit	$4,126,424,	dec.	$3,188,593	$ 4,227,202,	dec.	$2,666,796
Earned on Com. Stock	$1.25,	dec.	$6.38	42.27%,	dec.	26.66%

then, for the fact that with drawbacks of 1917 remedied, earnings nevertheless took a tremendous slump. This slump was due, according to the management, to higher cost of production. The report states that the cost of producing sugar on an f. o. b. basis at the factories during the last three crops was as follows: 2.748 cents in 1916; 3.431 cents in 1917, and 3.998 cents in 1918.

How did other Cuban sugar producers fare which also had to contend with higher costs? The Cuban American Company, next to the Cuba Cane Corporation, is the largest producer of sugar in Cuba. In Table I is given a comparative statement of results accomplished by these two companies respectively.

A study of this table shows that the production of the Cuban American Company decreased 19,864 tons last year. Yet its operating profit decreased only $572,000. In contrast with these results the Cuba Cane corporation increased its output 48,786 tons, and yet its operating profits decreased $3.704,000. While the Cuban American company profits decreased as stated, its reserve for war income and war excess profits taxes was $3,500,000, an increase of $1,000,000. Its depreciation reserves were $1,625,023, an increase of $862,993. These increases of an aggregate of $1,862,993 in the two items explain in part why net operating profits decreased.

In contrast, the Cuba Cane company reports only a reserve of $800,000 for war taxes, or $486,471 less than the previous year, and $1,750,000 for depreciation or $500,000 less than the previous year. The figures prove that its lower operating profits were not due to any larger appropriations for these funds. The advantage lies with the Cuban American company.

A comparison of the balance sheets of the two companies also is decidedly in favor of the Cuban American Company. Table II gives a comparative statement of the balance sheets of the two companies. Cuban American Company reports net current assets of $14,376,447. This item of its statement shows a decrease for the year of only $109,173. In contrast Cuba Cane Sugar which the previous year reported net current assets of $5,665,519, for the last crop year shows net current liabilities of $2,035,580. Cash assets were $700,712, a decrease of $38,636 from 1917. Inventories total only $261,112 or $3,322,074 decrease from the previous year. A decrease of $5,792,073 in cash assets of the Cuban American Company is accounted for in part by the item of $2,300,000 in Liberty bonds held. No such item appears in the statement of the Cuba Cane Corporation. But the latter made heavier advances proportionately to colonos or tenants of its cane fields. In every other respect its statement is unfavorable in comparison with that of the Cuban American Company.

TABLE II

	Cuba Cane		Cuban American	
Capital Assets	$75,290,448, inc.	$10,850,617	$29,993,127, inc.	$2,172,468
Net Current Assets	*2,035,580, inc.	7,701,100	14,376,477, dec.	109,173
Cash	700,712, dec.	38,636	1,606,365, dec.	5,792,073
Products on Hand	261,112, dec.	3,322,074	2,327,853, inc.	896,707
Advances to Colonos	9,052,710, inc.	3,549,990	3,334,173, inc.	1,719,373
Planted & Growing Cane	2,771,852, inc.	926,120	2,592,223, inc.	856,323
Inventories, Etc.	3,425,250, inc.	196,881	4,500,685, inc.	882,361
Liberty Bonds	....	....	2,300,000, inc.	2,300,000

* Net Current Liabilities.

A Company That Stayed Out

Mention has been made of the fact that the promoters of the Cuba Cane Sugar Corporation predicted economies through consolidation of small concerns into one large corporation.

In the light of this promise it is interesting to call attention to the experience of one small corporation

which did not go into the combination. This is the Francisco Sugar Company. It happens that the Francisco Company is controlled by the Rionda interests which also are connected with the Cuba Cane Sugar Corporation. A comparison or results of the Francisco Company and the Cuba Cane Sugar corporation during the last crop year is shown in Table III.

The Francisco company charged to depreciation $275,961 last year, which was more liberal in comparison with its capitalization than the $1,750,000 charged bythe Cuba Cane Sugar Corporation. Net capital assets of the Francisco company are given as $3,940,175 compared with the $75,290,448 of the Cuba Cane Sugar Company. The proportion of depreciation to capital assets for the Francisco company is .069 per cent compared with .023 per cent of the Cuba Cane. Comparison of the balance sheets of the two companies shows that whereas there was a change for the worse of $7,701,100 in the net current assets of the Cuba Cane company, the Francisco company increased its net current assets by $1,418,783.

Friends of the Cuba Cane Sugar Corporation say with truth that comparison between the two companies is unfair as the Francisco company happens to be an exceptionally good property while the Cuba Cane Corporation included in its amalgamation some companies of inferior productive capacity. Hence they say that a contrast of results attained last year is invidious. But the comparison does show that the benefits which resulted from the combination of properties into the Cuba Cane Sugar Corporation were reaped by the weaker members of the consolidation at the expense of the stronger ones.

As far as the preferred dividends are concerned, stockholders of the Cuba Cane Sugar Corporation apparently will be safeguarded by sinking fund provisions which will be made in connection with the issue of $25,000,000 bonds. But it is obvious that dividends on the common stock have been deferred indefinitely.

TABLE III

	Cuba Cane			Francisco Sugar		
Production (tons)	521,328,	inc.	48,786	45,951,	inc.	17,175
Operating Profit	$7,390,603,	dec.	$3,704,927	$1,633,962,	inc.	$1,467,408
Net Profit	$4,126,424,	dec.	$3,188,593	$1,169,902,	inc.	$919,948
Earned on Com. Stock	$1.25,	dec.	6.38%	$77.99,	inc.	61.33%

WHY ARE LIBERTY BONDS LOW?

IT requires neither magical mind nor mental effort to explain the reason why Liberty Bond prices are below par. The terms and interest rate of these War Loans were defined by such a close-trader as to have left little latitude for immediately reshopping them as bargains in a surfeited market after the initial transaction was closed. Because a buyer must be found for every seller, it is obvious that a redistribution among other investors can only be done at prices acceptable to the buyer.

Who would have believed that the holders of over $2,000,000,000 4 per cent bonds, representing nearly two-thirds of the total issue, would refuse or neglect to exchange them into identically the same security bearing one-fourth per cent more interest when the opportunity was extended? Yet this is exactly what developed when the holders of Second Liberty Loan 4s failed to convert them during the prescribed time limit into Second Liberty Loan 4¼s. An irreparable and permanent loss to those careless people resulted in consequence. Is it, therefore, any wonder that there appears to be difficulty in analyzing what the great American public is likely to do with the outstanding Liberty Loans?—C. FREDERICK CHILDS in *The Financier*.

An Advisable Exchange--B.& O. for C.& O.

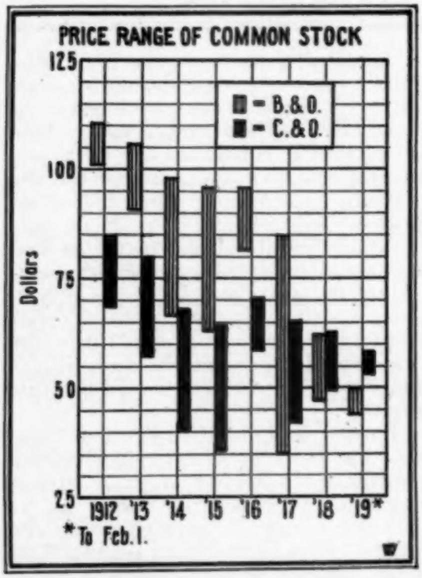
Great Transformation in Relative Status of the Two Systems—C. & O. Bonds Now Better Secured—Comparison of Revenue, Expenses and Charges—Position Under Government Control

By BENJAMIN GRAHAM

THE strange revolutions wrought by time are nowhere so evident as in the securities market, where an accurate comparison of the present with the past is afforded by the price record over a period of years. The spectacle of Chesapeake & Ohio selling nine or ten points higher than time-honored B. & O. must indeed excite wonder in the minds of those veterans who recall that about fifteen years ago the latter issue was quoted regularly at twice the price of its Southern neighbor. Even in the years immediately before the war, B. & O. ranged between 20 and 30 points higher—always enough to indicate a much sounded investment rating for the country's oldest railroad. But from 1916 on Chesapeake's market quotation began to gain rapidly, as is shown by our first graph. In 1918, the price limits of the two issues were practically identical, with Chesapeake entering the present year well in the lead.

What were the causes underlying this complete reversal in market position? The most obvious reply would be: B. & O.'s balance for dividends has been declining sharply, while Chesapeake's has recorded a noteworthy expansion. This fact is clearly brought out by our second graph, which reveals that since 1915 the surplus earnings of the two system have been tending in opposite directions.

We would call particular attention to another fact demonstrated by this graph —namely that B. & O.'s margin of safety above interest charges has now fallen well below the corresponding figure for Chesapeake. From the investment standpoint this question is of even greater importance than the percentage earned on the stock. A comparison of the present prices for the similar securities of both companies (given in Table III) indicates that Baltimore & Ohio's bonds still enjoy a higher public estimation, even though the common stock has fallen well behind. The preference for B. & O.'s bonds is of long standing and is based upon the striking defect in Chesapeake's capitalization structure—namely, the preponderance of funded debt, which in par value aggregates three times the capital stock. While B. & O. itself has always been plentifully supplied with obligations, the fact that it



has preferred as well as common stock outstanding, gave its bond issues better protection; and as the graph indicates, its interest requirements five years ago were earned with a much larger margin of safety than were C. & O.'s.

But the steady decline in Baltimore & Ohio's net earnings, accompanied by the

rapid increase in fixed charges, has completely undermined this solid investment advantage. The bondholder should note carefully that in both 1916 and 1917 Chesapeake's interest requirements were earned with a substantially larger margin of safety, and furthermore that the guaranteed compensation under Federal control affords relatively better security to this company's bonds than to B. & O.'s.

TABLE I—TEN-YEAR DIVIDEND RECORD

	B. & O.	C. & O.
1909	6%	3%
1910	6	4¾
1911-2	6	3
1913	6	4½
1914	6	3
1915	5	...
1916	5	2
1917	5	4
1918	*4½	4
Present rate	4	4

* 2% paid Feb. 1, 1919.

So radical a transformation in financial results requires a more thorough examination into its basic causes—to determine whether it has been due to merely local or accidental conditions, or to a permanent change in the status of the two systems. The former would indeed appear unlikely, in view of their close proximity and the similar nature of their tonnage. Except for some advantage gained last year by C. & O. through its control of the war traffic in the Norfolk district, it were to be expected that both lines would experience the same vicissitudes and their fortunes would fluctuate together.

Further study of the subject discloses that the basis of Chesapeake's present ascendancy is three-fold: 1. A greater expansion in volume of traffic. 2. An increasing superiority in operating efficiency. 3. A much smaller growth of interest charges.

Gross Business

In 1913 B. & O.'s revenues per mile were 50% greater than C. & O.'s. By 1917 this advantage had been reduced to only 25%. (In 1918—an abnormal year, of course—the difference was cut still further to only 18%.) Chesapeake's rapid gain upon its rival is due to the fact that its per mile gross increased during this period from $15,130 to $22,650, or over 50%—while B. & O.'s rose only 22%, or from $23,190 to $28,300. This development cannot be ascribed to temporary war activities, which must have benefitted B. & O. as much as Chesapeake. Nor can the demand for coal be regarded as the primary cause, since bituminous is almost as important a part of Baltimore's traffic as it is of C. & O.'s. The gain in the latter's revenues must be ascribed rather to the rapid upbuilding of its territory, which has afforded a much better field for expansion than the already highly developed regions traversed by the Baltimore & Ohio.

Operating Expenses

Of equal significance with the greater increase in gross revenues, is Chesapeake's better control of its transportation costs. Its advantage in this respect dates far back as can be observed from the data for 1912, given in our second table. We should expect that just as C. & O.'s lower traffic density in 1912 gave it a better opportunity to increase its gross business, so B. & O.'s higher operating ratio would make improvement in that respect much easier to achieve. Nevertheless the opposite has been the case, and the table shows that Chesapeake's substantial advantage in 1912 has increased to a really extraordinary figure in 1918—the difference in its favor being over 10% of gross.

TABLE II—RATIO OF TRANSPORTATION, TRAFFIC AND GENERAL EXPENSES TO GROSS

	B. & O.	C. & O.	C. & O.'s Advantage
1912	39.6%	34.8%	4.8%
1916	39.4	32.9	6.5
1918 (11 months)	49.0	38.5	10.5
Average Revenue Trainload	Tons	Tons	Tons
1913	620	843	223
1917	777	1,043	266

In view of the fact that B. & O. is still carrying considerably more traffic to the mile, its much poorer showing in transportation expenses must excite remark. Chesapeake is helped, of course,

by the somewhat larger proportion of coal traffic handled, which makes enormous train-loads possible—as shown by Table II. Yet this factor is more than offset by the 40% higher rate per ton-mile enjoyed by B. & O.

The crux of the whole matter lies in C. & O.'s lower cost of operation per train mile. Numerous factors contribute to this result, an analysis of which would be too technical for our purpose. We would refer merely to the much larger payments by B. & O. for loss and damage, and to the excessively large sums it spends on traffic expenses (superintendance, outside agencies, etc.). The figures seem to show very clearly that the greater *economy* of Chesapeake's operation is due to greater *efficiency*.

The importance of this subject should be evident from the fact that had B. & O.'s transportation traffic and general expenses been held down to the same ratio as Chesapeake's, its net income in 1917 would have been fully $13,500,000 larger —a matter of $9 per share for the common stock.

It cannot be claimed that B. & O.'s higher operating costs are due to larger expenditures for upkeep, since the above argument has left maintenance charges entirely out of consideration. The fact is that the maintenance record presents nothing of great importance, save perhaps the neglect of B. & O.'s roadbed in 1915. The 1913-17 reports show that Chesapeake spent an average of 32.64% of gross on maintenance, against 31.05% for B. & O. The 1918 figures will be referred to later.

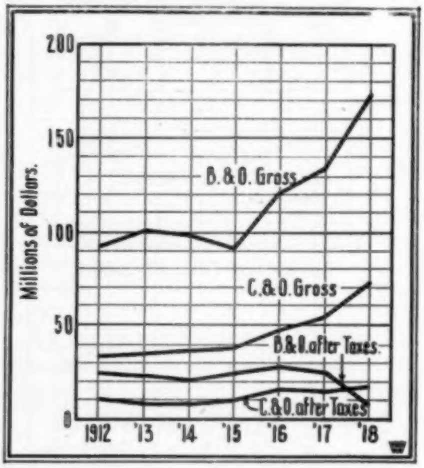
Fixed Charges

Between 1912 and 1917, B. &. O.'s funded debt increased about $120,000,000. Its interest charges at the beginning of 1918 were $19,250,000 against $13,028,000 paid in 1912—an advance of $6,222,000, or 48%. During the same period Chesapeake's outstanding bonds expanded but $26,000,000 and its interest charges only $1,237,000, or 17%. Let us see what B. & O. can show for its much heavier increase in fixed charges.

1. Does it represent additional mileage?

The main line mileage of B. & O. has increased 7.2% since 1912, and the mileage of all tracks (including sidings) increased 10.2%. While this growth is somewhat larger than C. & O.'s (for which the two figures are 5% and 7%) it will not go far to account for a 48% augmentation in interest requirements.

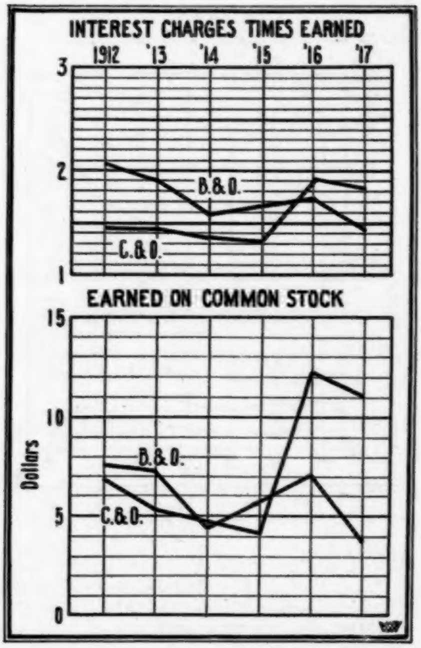
2. Does it represent new equipment? Since June 30, 1912, the total tractive power of B. & O.'s locomotives and the total capacity of its freight cars each expanded 14%. During this time the locomotive power of C. & O. rose 18.3% and



its freight car capacity no less than 23%. Here is a very substantial advantage in favor of Chesapeake, in spite of its reluctance to issue new securities. It is not strange, therefore, that in 1917 Chesapeake enjoyed a net revenue from equipment hire of $1,484,000, while B. & O. was compelled *to pay out* no less than $3,101,000 for this service—a truly remarkable amount. Considering that Chesapeake's traffic had grown much faster than B. & O.'s, the former road would seemingly have greater need of borrowing equipment. That directly the opposite was the case bears witness either to the more adequate supply, or the more efficient use, of C. & O.'s equipment The detailed figures indicate that both conditions obtain.

3. Is it represented by current assets?

On July 30, 1914, B. & O.'s net liquid assets were $28,135,000. By December 31, 1917, this amount had been reduced to $15,571,000. If materials and supplies are excluded—as the more logical accounting practice demands—then the decline in working capital is indeed ominous—from $20,225,000 to $893,000. During this period Chesapeake had been steadily improving its cash position; but large expenditures for new cars in 1917 brought down the working capital position to about where it was five years ago.



The C., H. & D. Investment

The proceeds of B. & O.'s large bond issues cannot all be recognized in the cash account, or in additional mileage or new equipment. A good part of these funds went into investments—particularly the Cincinnati, Hamilton & Dayton road, which up to December 31, 1917, had cost the B. & O. $39,380,000 in cash, in addition to underlying and assumed obligations aggregating $23,250,000. For this total investment of $62,630,000, Baltimore & Ohio has acquired 397 miles of main line—at a cost therefore of over $150,000 per mile. It is claimed that this so-called Toledo and Cincinnati division is in every respect as profitable as the rest of the B. & O. system. Yet the exceedingly unsatisfactory record of this property in past years makes it quite apparent that the C., H. & D. venture has proved an extremely costly one—the loss on which is not adequately measured by the $10,892,000 written off the investment and charged to surplus in 1916.

Status Under Federal Control

The compensation guaranteed by the Government is certainly of great importance, as determining the carriers' ability to pay interest charges and dividends under present conditions. But the amount of rental gains added significance from the fact that it is based upon an average of past income—and is therefore as good an indicator as one could desire of the relative earning power of the two systems during the period immediately prior to Federal operation. From these two points of view the results shown in our Table IV should be of considerable interest. The computation for B. & O. is based upon an official estimate published last December, which apparently includes some extra compensation or account of the C., H. & D. receivership. The results for Chesapeake are based upon the Bureau of Railroad Economics' figures and on the interest charges and "other income" as given in the 1917 report. The comparison shows that in respect to bond interest as well as balance for dividends, Chesapeake makes much the better showing.

Actual Earnings in 1918

Figures that have just come to hand for the full year 1918 show that Chesapeake & Ohio was one of the very few roads that reported a larger *net income* last year than in 1917. B. & O., on the other hand, fell behind disastrously—its net after taxes being less than one-third of the previous year's figures. It must be said here that a good part of Baltimore & Ohio's miserable showing is attributable to extraordinary expenditures for maintenance, these having increased

from 30% to over 42% of gross in 1918. But as our second table showed, this company has continued to fall behind Chesapeake in operating efficiency. The exhibit of C. & O. is particularly encouraging as indicating the ability of this system to operate successfully under the very unfavorable conditions of the past year.

TABLE III—CORRESPONDING SECURITIES OF THE TWO SYSTEMS

	Baltimore & Ohio		
	Due	Price about	Yield
Common stock, 4%..	....	46	8.7
Preferred stock, 4%..	....	55	7.3
Prior Lien 3½s......	1925	88	3.9
First 4s..............	1949	77	5.2
Ref. and Gen. 5s....	1995	82	6.1
Convertible 4½s.....	1993	78	5.8

	Chesapeake & Ohio		
	Due	Price about	Yield
Common stock, 4%..	....	55	7.3
Consolidated 5s......	1939	99	5.1
General 4½s.........	1992	80	5.6
Convertible 5s.......	1947	86	5.8
Convertible 4½s.....	1930	80	5.6

Certain peculiarities of B. & O.'s bookkeeping in recent years call for brief comment. In the first place, since 1912 no less than $10,082,000 has been charged directly against surplus for discount on securities sold. At least $3,000,000 of this represents discount on short term note issues which was really a part of the interest charge for the period, and properly includible among deductions from income. For some time moreover, B. & O. had been taking into its earnings the interest accrued on advances to the C., H. & D.—an item absolutely uncollectible and which ultimately had to be charged off against profit and loss. Nevertheless, until 1916 these advances and accrued interests (aggregating over $10,000,000) were carried as bills receivable under *current assets*.

Again in 1917 B. & O. transferred to its income account the $362,000 surplus earnings of one subsidiary—the Sandy Valley and Elkhorn R. R.—while the deficit of $411,000 suffered by the Chicago Terminal R. R. (all of whose stock it owns) does not appear in the parent company's statement.

Finally, reference should be made to B. & O.'s large bank loans, aggregating $22,500,000, for which constant extensions have been necessary, and which, with the $7,500,000 notes maturing July 1 next, constitute a disquieting feature in the company's financial situation.

Conclusion

The cumulative effect of all the above evidence must inevitably be a verdict in favor of Chesapeake & Ohio as against B. & O. The market has already recorded this judgment in the relative price of the two common stocks—although the facts would seem to require an even larger margin for C. & O. But the bond market is slower to reflect changing conditions, and here B. & O.'s old ascendancy still continues—though much impaired.

We would particularly recommend the exchange of B. & O. Conv. 4½s, due 1930, and Refunding 5s, due 1995, for C. & O. Conv. 4½s and 5s, due 1930 and 1946 respectively.

TABLE IV—COMPENSATION GUARANTEED UNDER FEDERAL CONTROL

	B. & O.	C. & O.
Net operat'g income	$26,500,000	$13,268,000
Other income, net..	3,900,000	.1,082,000
Total available for interest	$30,400,000	$14,350,000
Interest charges....	19,200,000	8,589,000
Preferred dividends.	2,350,000	......
War taxes (est.)....	1,100,000	575,000
Balance for common stock	7,750,000	5,186,000
Interest ch'gs earned	1.58 times	1.68 times
Earned on common stock	$5.10	$8.26

Now everybody can see what's going on at the Treasury, it is under Glass.

Valuation of Industrial Stocks

A Systematic Plan of Reducing Judgment and Information to Cold Figures

A LEADING engineer, for many years connected with one of the big companies manufacturing agricultural machinery sends us a very interesting explanation of his method of judging the comparative prospects of different industrial stocks. The idea suggested has the merit of novelty, and also has the advantage of requiring a thorough and systematic study of the conditions surrounding the different companies and the position of each industry as compared with others.

In explaining how he came to adopt this plan, he says that, in taking up the study of industrial securities, he found that:

The vast number of facts multiplied into the numerous prospects, could not be laid out in orderly array for inspection. Future prospects of corporations cannot be shown by figures, for the very good reason that such figures are mere speculation, particularly in these reconstruction times. While balance sheets may promise a little for the future, such information must be treated as "old stuff" because they would be available to everyone. Some way, then, must be devised to overcome this.

I was familiar with the growing practice of valuing more or less intangible facts by a system of numbers. For instance, the observed talents of Army officers have been rated successfully, it has been said, by the use of a rating scale. So, after a few trials, I devised a similar way which surmounted these obstacles, to my satisfaction, at least.

By this method I proposed to value facts in an orderly way, and also proposed to make it value those facts which are not expressible with the dollar sign. This last was a most important feature because judgment must be based on what the future may bring forth. In these reconstruction days, past performances can be only a secondary guide for a decision.

I proceeded, therefore, to adopt a plan of valuation which should cover the five principal elements likely to affect the price of the stock of each corporation. I arranged my system of index numbers so that the total of the highest ratings for all of the five divisions should be 100. Therefore the aggregate index number finally arrived at for each stock would express its relative prospects in the form of a per cent. A comparison of the various ratings for the different securities would then be easily possible.

Table I shows the result of this numerical rating of 18 corporations, covering a more or less wide range of different industries. The different divisions of this table are explained as follows:

I. Prospective relative increase of surplus applicable to common dividends, whether common dividends will be likely to be increased or not. Use the rating figures 4—7—10—13—17. These figures are to be used in a relative sense, that, is, they only have a value when the number of corporations are compared (not less than 15). They represent the comparative prospects of these corporations, and properly can be set opposite a corporation only when all the corporations are considered at the same time. In these times a corporation might substantially increase its surplus but perhaps not its dividend rate.

TABLE I.

	I	II	III	IV	V	Total
Allis Chalmers	7	4	13	13	7	44
Am. Car & Foundry	10	7	10	17	25	69
Am. Locomotive	7	7	10	13	19	46
Barrett	10	13	17	17	25	82
Bethlehem Steel	7	7	13	17	25	69
Cru. Steel	4	4	17	10	7	42
Gaston Williams	7	10	17	17	19	60
General Motors	13	13	13	13	25	77
Goodrich	13	13	13	13	19	71
Int. Harvester Co	17	17	17	10	25	76
Mex. Petrol	13	17	17	17	25	89
Rep. Iron & Steel	10	4	13	13	12	52
Studebaker	7	4	13	10	19	53
U. S. Ind. Alcohol	7	4	4	10	7	32
U. S. Rubber	17	17	13	13	32	82
U. S. Steel	13	7	13	10	12	55
Utah Copper	4	4	7	10	7	32
Willys Overland	10	10	13	7	12	52

II. Prospective increase of dividends considered after the same manner as "I," but having no reference to the size of the surplus except as to the extent necessary for an increased dividend rate. Use the same figures.

III. Prospects for the future of the industry with which the rated corporation is most prominently identified. For this purpose I constructed **Table II.** As in Division I. the valuation is purely relative. All industries are to be considered at one time, and each is to be compared with the other. The same rating values as in Division I. are to be used. This table is based on activity in the industry, although prices for products are also to be considered in a minor sense. Its use is illustrated thus: Agricultural implements having secured the highest

rating, 17, this number is used in column III. and opposite International Harvester Co. The future of the industry, say six months to a year hence, is to be considered, rather than its present status.

IV. Management. Use the same scale and after the same manner as before. It is especially obvious in this case that a fair management rating will be given only after careful consideration of the management of all the corporations before the rating for any one is decided upon.

V. General values for a rise. Consider all the other points not previously considered, such as psychology of buyers for each stock, breadth of proximity of its last rise, size of its prospective market, plans of the corporation for further inflating its stock issues as well as all other possibilities. Use the scale 7—12—19—25—32.

It will be remembered that by adding the highest figures of each of the five divisions that 100 will be secured, which would be the highest total rating obtainable.

He found that this classification of his judgment in regard to the various elements entering into values was of decided help. Some of the stocks which had been his favorites were rated, in the cold analysis of the table, below others to which he had previously paid little attention.

Conditions, however, were constantly changing. Making up a new table of estimates a month later, he found it considerably different from the first one. So he adopted the plan of frequently making up a new table, without reference to the previous ones, and noting and studying the differences. For his own guidance, he adopted the following resolutions:

He would be quick to properly value any new information, in fact, he would make himself responsible for hunting it up.

He would be ready, if necessary, to add new divisions to his table should five not be sufficient.

Never would he allow his study to get him into a rut.

Always in considering investment possibilities, he would cover the broad range of as many divergent industries as possible.

The net result of his plan, it will be observed, was a thorough, persistent, systematic study of the values of these stocks. No two persons would arrive at the same conclusions, and the correctness of the judgments formed would depend on the individual in each instance. But the plan assures the actual exercise of judgment, rather than guessing, and it has the merit of reducing judgment to cold figures.

TABLE II.

Steel	13
Elect. Equipment	17
Dry Goods	17
Oils	17
Chemicals, Acids, etc	17
Trucks	17
Paper	17
Coal	17
Nickel	17
Bldg. Const. Equip	17
Tool Steel	17
Copper	7
R. R. Equip	10
Leather	4
Silver	8
Tobacco Sales	13
5 & 10 Cent Stores	13
Ship Building	10
Automobiles, Tires, etc	13
Public Utilities	10
Packing Houses, Food, etc	13
Agricultural Imps	17
Tractors	17
Fertilizers	17
Sugar	3

SUCCESSFUL ADVERTISING

ABILITY to prepare successful advertising implies business sense plus a keen journalistic scent for interesting news. The more business sense and common sense an ad writer has the less literary ability will he need. To write a good advertisement on any subject a man has got to be soaked through and through, not merely with the business in hand, but business principles in general. A man can't become a good doctor until he has learned all about the human body in the clinic and the dissecting room. Neither can any one become a succesful ad writer until he knows enough about business to appreciate his client's position—until he can put himself in his client's shoes and look the needed proposition squarely in the face.

JED SCARBORO.

Trade Tendencies

As Seen by Our Trade Observer

The average investor has neither the time nor the opportunity to follow developments in the various industries, although such developments at times are of vital importance in the consideration of the long range prospects for securities. This Department will summarize and comment upon the tendencies in the more important trades as expressed in the authoritative trade publications and by recognized leaders in the various industries. As the general tendency in a given trade is but one of many factors affecting the price of the securities representing that industry the reader should not regard these Trade Tendencies alone as the basis for investment commitments, but merely as one of many factors to be considered before arriving at a conclusion.—Editor.

Steel

Where Is the Prosperity Period?

Picture in your mind's eye a locomotive running at full speed, and the brakes applied suddenly. The locomotive's wheels stop, but it slides with the momentum gained. This, figuratively, is the position of the steel trade at present, and unless an incentive is found to release the brakes and apply the steam again, activity is scheduled to nearly cease.

While the steel mills show a slight improvement in orders obtained, new buying is small in the point of tonnage and is quite insufficient to maintain operations at even

the present rate of curtailed capacity. Just now most of the shipments that are being made are against old orders, and the new buying appearing in the market is not of a substantial character. Steel is in demand on a small scale for the manufacture of miscellaneous goods, such as stoves, tools, automobiles and for repair work, and as buying of the present character cannot equal one-half of the steel production capacity, not much encouragement can be gained from this situation. Even these buyers are very much afraid of a sudden decline in the market, and they have a habit of demanding prompt shipments and a price guarantee to the date of shipment (if they can get it).

Thus the much touted period of prosperity for the steel industry is receding further into the distance. The steel trade is beginning to realize that fundamental conditions must change radically before a real substantial demand for steel can develop. It is openly admitted now that a lot of things must be done before orders can be expected to come into the market in volume; these "things" consisting chiefly in the stabilization of the whole business fabric.

When the tendency of the steel trade was first analyzed in these columns several weeks ago, and a conclusion reached diametrically opposed to the public utterances of leading men in the trade, the writer was bombarded with a storm of protest and criticism. But it is now proven that in analyzing trade situations, it is well to come down to fundamentals and avoid high sounding prophesies.

The steel industry is not going to the "dogs," but the time is not yet ripe for projection of works of construction, and as two-thirds of the steel produced normally flows into this channel, activity cannot be expected until this time arrives. Buyers must be assured that they are safe from severe declines in the value of their investment through recession in commodity values and wage rates; also that heavy taxation and onerous regulations are safely out of the way, and that we can expect no demonstrations of violence from the disgruntled and wild-eyed classes.

The Tenure of Present Prices

While it is always hazardous to predict when a change in prices is likely to take place, sometimes trade indications are such that this situation can be forecasted with fair accuracy. Some still advance the argument that further declines in prices will not come, and that the public will eventually become accustomed to paying present prices (this statement being qualified by the assumption that there will be

no wage reduction). This may be a good argument, but I am inclined to hold against it. Wages must come down eventually or this country will never be able to do business on a normal scale. The trade may hold wages at a high figure for some time by agreements, but when it is apparent that prices will not be paid for the product as based upon an abnormal wage scale, there is bound to be a break somewhere which may lead to a precipitous decline.

Opinion has it that no further declines in iron and steel prices will occur before April 1 since this is the date on which the War Industries Board would have handed down a new price schedule had it been in operation, and the steel trade is expected to follow this plan temporarily at least, through force of habit. Just now a break in prices is not expected, as there is no incentive for a reduction. No demand is in evidence for deliveries no matter what the price, and under these conditions producers await the next move.

Export Situation Holds Center of Stage

Before the drastic cut in freight rates was announced export inquiries and actual orders were flowing through the trade resembling a churning process. There were so many difficulties in the way of actual closing of export orders, such as high freight rates, scarcity of bottoms, etc., that little business was being done.

With the cut in freight rates, however, a more optimistic outlook for export activity became immediately apparent. In some quarters it was believed that the high rate on our ships was the chief stumbling block to a brisk export demand from foreign sources. Many exporters have been unable to quote rates on export iron and steel because of the unsatisfactory shipping situation, and immediately after the announcement it was brought out that the steel trade was not doing as much in the export line as many believed. In this connection, it might be brought out that many in the steel trade expected that the export demand would tide over the lack of inquiry in this country until production could be started here on a peace basis.

Although big business from foreign sources is still lacking, one of the largest obstacles has been removed from the path, and as American producers can now compete with Great Britain on almost equal terms, conditions should improve.

A word in regard to the new Export Combination. It seems that little is being done by this combine, and quite a number of large independent steel producers have no immediate intention of joining the arrangement. These producers have had relations with large export houses for years and are loathe to cut away, as they feel that their business can be conducted through these channels in good shape. Thus the export combine is not doing the wonders predicted at first.

The labor situation is being watched with a careful eye. It is recognized in the trade that careful treatment must be accorded to avoid unrest on the heels of wholesale unemployment. The steel trade policy is against drastic revision downward in wage rates, but producers are insisting that they get full return for money paid to labor. The policy followed at present is to eliminate less desirable and inefficient workers and retain the better class at a rather high rate for the present.

* * *

Railroads

Problem Dominates Business World

"One-third of all the railroad mileage in the country will be in the hands of receivers within sixty days if the roads are turned back immediately to their owners without proper protective legislation," recently declared Senator Cummins of Iowa, ranking Republican member of the Interstate Commerce Committee. And he is probably right. It has been pointed out in these columns that conditions within the railroads themselves are rapidly pushing them toward the brink of disaster. The operating costs situation is a momentous problem, the labor angle is distressing, to say the least, and on top of it all, the tremendous gross earnings which have helped to a proportionate extent to ward off further decreases in net are beginning to show declines, due, of course, to the general slowing up of business all over the country and the lightened war traffic and tonnage.

Under the present law of Government operation, the President cannot hold the roads more than 21 months after peace is proclaimed, but can return them at any time within that period. Not only Congress, but railroad men themselves, believe that it would prove disastrous to abruptly return the roads before remedial legislation is enacted, and a bill is now up for consideration, which stipulates in brief that the roads should be held by the Government for the full twenty-one-month period, so that such legislation as is necessary for the return of the roads to their holders is enacted.

The above is only one of the multifarious situations that are constantly arising in the muddled railroad situation. One thing is noticeable now, however, and it is that the trend is definitely away from the idea of Government ownership. Advocates of this solution have failed to make substantial headway with their ideas. In the meantime plans for the return of the railroads are being submitted daily. No one plan seems to fully cover the exigencies of the situation, and at this writing very little satisfactory progress has been made. Certainly there is too little time left between now and the end of this Congressional session for anything to be done, and it is conceded that the problem will be handed

down to the next Congress. This is as it should be. First, the problem is so engrossing in its scope that it would be the height of folly for Congress to admit its inability to solve a problem of this kind along conservative lines and hurriedly construct flimsy legislation that would do the country as a whole more harm than good, and, second, no good would come of failing to"face the music" and adopting a five-year Government control plan, which in effect is nothing more or less than admission that the railroad problem is too big to be solved, and that things should be allowed to drift for a few years more. The next Congress must and will take up the problem and squarely afford a reasonable solution.

The Interstate Commerce Commission

Aside from the major and engrossing question of what will be done with the railroads, there are many interesting inside features that are continally coming up for discussion. Our readers are generally aware of the trend of operating conditions, expense account, the probable traffic and tonnage densities and their effects upon the railroad situation generally. One thing is becoming more apparent daily, and that is the antagonistic attitude taken by railroad men generally toward the Interstate Commerce Commission. Every move that body makes it seems to "put its foot in it." Of course, it is maintained that there is a reason for railroad opposition to the I. C. C., as that body has always assumed the attitude of the protector of the shipper. In this connection, it is pointed out that an alarming situation is becoming apparent. The Commission has recently made rulings in direct contrast to those issing from the Director-General's offices, and were made with the attempt to reduce rates in certain localities and instances. This makes very little difference now, but railroad men fear that with the return of the roads to their owners the Commission will indulge in the same practices, and they have good authority for this assumption on the precedent of the Commission's activities before Government control. The situation would be briefly this: The railroads would be confronted with all the troubles heretofore mentioned, particularly the big increase in wages, while the advances in rates made by the Director-General would be slowly cut for one or another as they came before the Commission for ruling. Since the rates are even now inadequate to meet the tremendous increases all around, it takes little foresight to determine what would happen when the Commission got to work.

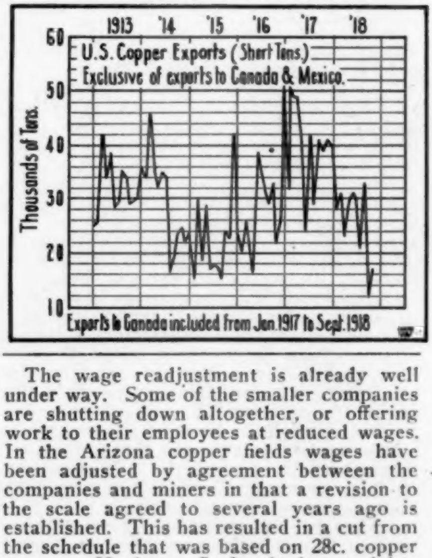
* * *

Copper

Business Stagnant

Electrolytic copper is still quoted at 23c., with consumers protected against declines, but no real business is being done at that figure. Copper transactions are taking place, it is true, but they are on a small scale and at prices ranging from 18c. to 20c. In the meantime business is practically at a standstill, buyers, both foreign and domestic, preferring to bide their time and await further price reductions that, in their estimation, will be made soon.

Probably the only features of interest in the copper situation are the continued curtailment in various parts of the country of copper production and the readjusting of wage scales to conform with conditions. Curtailment of output continues until the production of the metal has been reduced to an average all over the country of between 55% and 65% of capacity. Even on half-running time copper producers are not a little concerned over the lack of buying power or, rather, buying inclination, with the result that more copper is being added to the reserved stock, which already approximates the enormous total of between 500,000,000 and 700,000,000 pounds.



The wage readjustment is already well under way. Some of the smaller companies are shutting down altogether, or offering work to their employees at reduced wages. In the Arizona copper fields wages have been adjusted by agreement between the companies and miners in that a revision to the scale agreed to several years ago is established. This has resulted in a cut from the schedule that was based on 28c. copper to near a 20c. base. So far the large mining camps have made no direct cut, but got around the situation by reducing operations anywhere from 40% to 50% of capacity. It seems to be the tendency in copper circles to let the labor situation take its course, and by that it is meant that miners can take their choice of having no work at all or agreeing to lower wages. The initiative must come from labor circles, however, according to the copper trade.

The Export Phase

While the actual ratio of copper exports to American output was about 30% in 1918, or 17% less than in 1917, it must not be

assumed that production was less than the year before. As a matter of fact, production was as great in 1918 as in 1917. The explanation of this seeming anomaly lies in the fact that smaller exports in 1918 was due to the divergence of the metal into manufactures here, as against the shipments of the raw to our Allies for working up the year before. Nevertheless, as brought out graphically in this column, this ratio has declined to an alarming extent, and something must be done to avoid retaining more copper here than the market can absorb.

A committee representing the new Copper Export Association, together with Stephen Birch, president of the Kennecott Copper Corporation, and S. R. Guggenheim, of the American Smelting & Refining Co., left for Europe presumably for the purpose of establishing correct copper relations with foreign countries. The export combination is a step in the right direction, but as yet has not stepped very far, and all the copper trade has are assurances. Foreign buying that was expected to rush pell-mell into the market as soon as conditions were a little settled has failed to appear, and the trade now sees that foreign purchasers are not as "hard up" as they were reported to be. It is now clear that this demand will not be felt to an appreciable extent until a fair level of prices (and by fair it is meant as low as 19c.) is definitely and publicly established.

* * *

Oil

Security Markets and Trade Conditions

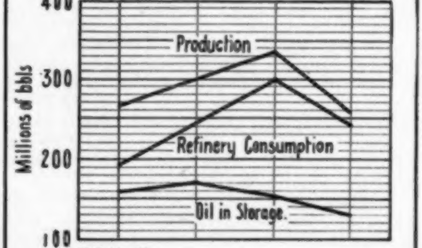
The best time-tested barometer of coming events in a given trade is the stock market action of securities of companies engaged in that industry. Long before business was at its top notch in the automobile line, the securities market predicted with accuracy that good days were ahead. So it is with oil. The security markets are pointing to trade conditions that will prevail six months hence, and in the case of oil, this shows prosperity. Business men all over the country, particularly those actually engaged in a given industry, refuse to recognize the forecasting ability of security markets, and adhere to the notion that trade prosperity is upon them when the shares of their companies are moving rapidly upward. Experience has proven that this is not the case.

The present instance is a good example. Just now the oil industry is going through a readjustment process similar to those experienced in other lines (this qualified by the assurance that oil has not as much shifting to do as others). Many problems confront the trade, and it would be a mistake to convey the idea that oil has shifted without the least disturbance from one stage of prosperity to another and greater stage. The adverse factors in the trade now are the curtailment of military fuel oil requirements, the falling off of production of aviation gasoline and the general reduction of military requirements both in this country and overseas. Then it must be borne in mind that foreign markets are still far from normal, that many of our companies are not yet able to operate on a normal basis due to the lack of shipping facilities, and other minor but annoying conditions, must be and are being faced. Thus we can readily see that while trade activity has not slowed down in oil as much as in other industries the prosperous condition, as indicated by the security markets, is not yet upon it.

But of the future, we have full confidence. These columns have contained in detail arguments that proved that Oildom is in for prosperous times, and these times are not very far off.

What About Production?

With intense activity in all oil fields, or with preparations, therefore, there has already been sounded a note of caution in regard to overproduction. This argument points to the fact that demand on a large scale for military requirements has been sharply curtailed and that new petroleum areas, particularly in north central Texas (the Ranger field) may, temporarily at least, cause an excess production. In regard to the Ranger field, although every effort is being made to bring in additional product just now, oil is not being obtained in large enough quantity to effect the market adversely. The movement from Ranger is between 35,000 and 40,000 barrels daily, but production in Oklahoma and Kansas is between 60,000 and 70,000 barrels below the daily output from these fields last year. Every effort is being made to provide additional facilities for marketing oil from north Texas, but this will take time, and it is a question whether when this is brought up to about 100,000 barrels per day expanding demand will be able to take care of it.



The condition of reserved stocks is a well-known story. In the four years prior to 1918, production has merely kept pace with refinery activity, but during 1918 production fell far below refinery consumptive demands. During 1918 the average monthly increase in production was only 700,000 barrels, as against an increase in refinery activity of 1,700,000 monthly, with the result that reserved stocks were sadly depleted. Oil men are of the opinion that a condition in the industry, such as brought about by the famous "Cushing" find, is not likely to occur again. They claim that consumptive demand for petroleum products is on such a large scale and ever expanding that the bringing in of "gushers" cannot cause more than temporary palpitations in the trade.

Export Situation Clearing

Tonnage for oil uses is being released in increasing quantities and the situation is rapidly becoming normal. Oil's position in this regard, aside from the switching from military requirements to demands of foreign markets, is contingent just now more upon how oil can be carried to foreign lands rather than whether those countries can absorb it. It will be borne in mind that before the war about 65% of our overseas petroleum business was with neutral countries. The markets in these countries are starved for oil, and will probably absorb as much as it is possible to ship. Of course, competition is to be expected from foreign fields, but these are in such a state of disorder that this is not likely to be felt for a long time to come. Our foreign business should be good.

Tendencies of the oil trade are still upward, and indications point to rapid surmounting of present obstacles and difficulties contingent upon the readjustment period. Activity will soon be resumed upon a normal basis and on a large scale.

* * *

Grain

More Confusion by Official Announcement

Grain prices in unrestricted markets have been heading sharply downward in the last few weeks owing to well-known factors. The only commodity that is outwardly unchanged is, of course, wheat, but it is easy to determine that dealers are in a high state of nervousness and that wheat has a weak undercurrent. The problem is a formidable one to put it mildly, and Government circles are having a difficult time in formulating a policy that will meet with general approval.

The various angles of this situation have been pointed out in this column. We know of the difficulties that will have to be faced in the foreign markets; we have seen how the whole economic structure will be adversely affected if an artificial market for wheat is maintained and the alternative, the acceptance by the Government of its loss by allowing the market to take a natural course has been pointed out. Meanwhile the trade is in a dissatisfied mood. Consumers everywhere are displaying bitter opposition to the Government's guaranteed price policy on the next crop. Some point out that war contracts are cancelled and there is no reason why the contract with the farmers, now that the emergency has passed, should not be cancelled also. They assert that this would not be a great hardship as the next crop has not as yet been seeded and that the plowed lands should be used for something else as well. While this is a good argument it is not likely to prevail, and it is generally agreed that the Government must pay as promised if only to avoid a chaotic political condition.

Protests from consumers will no doubt appear in ever-increasing volume as they argue, and they are right, in my opinion, that it is exceeding unjust for the Government to compel payment for wheat on the guaranteed basis during the next season, when the crop will probably amount to one billion and a quarter bushels. Out of this amount it is figured that the exportable surplus will amount to 500,000,000 bushels, for which there will be no market at $2.26. Since Argentina has a liberal surplus and Australia has over 200,000,000 bushels for export, it is not perceivable how the United States can expect to market its surplus at foreign markets over the prices obtained by these countries. Australian wheat has recently been selling between $1.15 and $1.30 f. o. b., and about $2 delivered in England. It is conservative to figure that our export wheat will not bring over $1.50 at the outside.

These elements of confusion are upsetting the trade generally. Millers are not willing to make contracts for forward shipment, claiming that wheat is too expensive to leave any margin of profit. Some millers are preparing to shut down altogether if a change is not soon forthcoming.

An Official Announcement

When the Eastern Seaboard Flour Trade requested assurance that it should receive the same protection on flour as is guaranteed to the farmer, Mr. Julius Barnes, president of the Grain Corporation, replied that the Government's wheat price would not be changed. Mr. Barnes said that he could not understand why there should be any feeling that the present guaranteed price of wheat on this year's crop would be reduced. He wrote: "By executive order, the Grain Corporation will continue to pay, until June next at least, the present level of guaranteed price to the producer, reflected in the various markets by the buying scale hitherto in effect. There is no necessity apparent, and it would be a most unsound policy to sell these holdings at less than the

established purchased price. In fact, it is very doubtful whether the Grain Corporation can contemplate providing the domestic market from its present holdings to any extent whatever, for the obligations at present definitely assumed, and those contemplated for shipments abroad, will exhaust entirely the present holdings of wheat of the Grain Corporation and the balance of wheat supplies in this country, and would seem to be barely more than sufficient for ordinary domestic requirements."

What will happen to prices for the next crop remains to be seen. Meanwhile the situation is decidedly unhealthy.

* * *

Rubber

Trade Rapidly Getting Its Stride

The immediate effect of cancellation of Government contracts and the abrupt cessession of buying demand from this source was the temporary lay-off of thousands of rubber workers. In the rubber industry, however, where it is not necessary to make radical changes in plant facilities, a switch to the manufacture of rubber goods in demand by the civilian populace was quickly made. At present, therefore, there is very little unemployment of rubber workers and actual peace business has begun to come in.

Of course, the prosperity that is predicted for the rubber industry is not yet full upon the trade, and is not likely to be forthcoming for a short time at least. The readjustment process is still under way and the trade is comparatively quiet. But confidence reigns. Restrictions have been removed and, all in all, the situation can be called as satisfactory as possible under the circumstances.

In the export situation the rubber trade, is looking for the partial solution of its problem. A review of conditions here reveal some interesting facts. Immediately after the war started little impetus to rubber exports was felt, but in 1916 and for each year thereafter exports of rubber manufactures have increased in value two or three times over the three years immediately preceding 1914. The 1918 total reached $33,343,181.

As an indication of the tremendous growth in the export direction, figures of sales to South America are illuminating. Before the war Argentina took rubber goods to the value of $150,000 per year, and in 1917 this was increased to $1,800,000; and Chili imported about the same amount as Argentina before the war, and in 1917 the value of exports to that country were $715,000.

Competition from foreign sources is bound to be keen, but the rubber manufactures of the United States have secured a substantial footing in foreign markets, and it will take a great deal to shake this loose. We are not losing sight of the fact that a large part of the rapid expansion in exports was due to the demand for articles used in war, but it must be remembered that while these war materials were purchased lavishly, the peace demand for rubber products, most of which was suppressed, will take a great deal of the production.

The rubber trade is doing more than just marking time at the moment. Its preparations are under way for expansion, and while business is slow and likely to be slow for a short time at least, the industry expects no depression and an early revival of business.

* * *

Tobacco

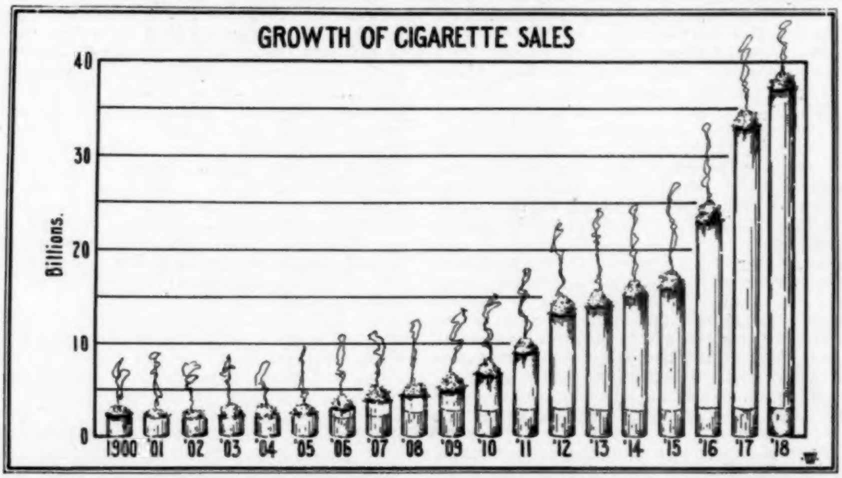
Business Dull, but Outlook Good

Some in the Tobacco trade are surprised and not a little concerned over the wave of dullness that is now prevailing. Investigation beneath the surface of things would reveal that the tobacco industry is no duller than any other and that its present dullness was predicted and expected. The tobacco market has passed from a "sellers" to a "buyers" affair, and as buyers have the upper hand, they point to the large stocks on hand and say that they will take their time in making purchases. Tobacco growers, on the other hand, do not admit that prices should recede very much, and are holding off until the last minute before marketing their goods.

On the whole, tobacco is taking its readjustment calmly. While business at present is slow, this condition is not likely to last long, and great expansion or, as qualified by more conservative observers, good activitv is confidently looked for. Tobacco interests, in substantiating their argument that good days are ahead, point out that the consumption of tobacco is greater than ever before at present, and with prohibition in this country consumption should be increased by leaps and bounds.

We have seen some remarkable business growths in this country in the last three or four years, but very few industries can surpass the record made by the tobacco industry in general, and the cigarette industry in particular. With the sale of cigarettes estimated at 39,000,000,000 in 1918, an increase over the previous year of over 4,000,000,000 is shown, and in the last eighteen years of nearly 37,000,000,000. The true condition of the cigarette industry in 1918 is not shown by these figures either. Although the internal revenue tax was paid on 39,000,000,000 cigarettes, the actual total manufactured in the country was closer to 60,000,000,000. The growth of the cigarette industry represents, of course, only one unit of the entire tobacco field, and when figures are all in it will be found that the growth in other branches will have been correspondingly as large.

This country heretofore has been temperate in the use of the weed, the percentage of the cigarette smoking here being 50% less than in England, probably due to the small number of women smoking in this country. Women are now learning to smoke, and while this may seen a small factor, the consumption of cigarettes may be increased from 25% to 30% from this source alone. The effects of prohibition, where it is in force, is apparent, and when prohibition becomes general the consumption of tobacco will be greatly increased. Statistics show that when liquor is not obtainable, tobacco is consumed in greater volumes. Further, the American tobacco industry has been helped by the introduction by American brands to all the Allied armies. It is a fact that American tobacco and cigarettes are preferred in foreign countries, and the foothold obtained by our manufacturers will mean the stepping stone toward larger business there.



* * *

Wool

Trade Confused by Governmental Interference

Further unsettlement in the trade has been brought about by the apparent policy of the Government to lower its withdrawal price in case the British Government should lower its price or should lower prices rule in the Colonial wool auctions, which are scheduled to commence in London some time in April.

In order to give growers a chance to market their clips without the interference of Government "competition," the War Department magnanimously announced that after July 1 Government Wool will be withdrawn from the market for a time. It is to be deduced from this situation that the present system of marketing the Government holdings will remain in force for a few months or till about the middle of next summer.

There can be little doubt that the trade looks upon the Government interference with their market with dissatisfaction. The outlook is certainly not encouraging in face of the many unsatisfactory phases of the situation. While it cannot be predicted with surety, the future attitude of the Government toward prices, from all the facts available, it seems that the Government will maintain its present policy. In the face of this situation the manufacturer is certainly not encouraged, and he refuses to go ahead with Government wool at high prices hanging over him. The wool growers are not likely to benefit materially either, for if domestic manufacturers cannot use the domestic clips, then the growers will find it hard to dispose of their wool at a fair market price. Congress can legislate its "head off" for the purpose of guaranteeing present or higher wool prices to the grower, but buyers will not pay.

It is estimated that the Government will still hold 150,000,000 pounds of wool on July 1 next (as based on the present rate of selling at auctions), and with this overhanging supply wool merchants will buy as little as possible this year. It is easy to see that an unsatisfactory situation exists both for wool growers and manufacturers, and the wool trade, according to the best opinion available, would rather have the Government holdings dumped upon the market for whatever they will bring and have it over with. The market could then resume its normal course.

Wool conditions are not bright, and will

probably take some time to clear up. In the manufacturing end of the trade, labor troubles continue to be a factor, and it is estimated that in New England alone there are around 500,000 mill operatives idle from one cause or another. The demands of the workers, however, are not the only factors that have caused shut-downs and part-time running. The major trouble is attributable to the general uncertainties.

* * *

Railway Equipment

Quiet Now, but Position Good

Prices for Railway Equipment have already begun to come down but no serious effects are being felt by the trade as operating conditions are being revised to a more favorable basis. Business is somewhat quiet at present but this was looked for and the majority of the trade agree that dullness will be temporary.

There has been no excess production in Railway Equipment line due to the war and while business has been good, the demand for railway supplies was not as great as it could have have been, and large sources of orders were cut off completely. In the export field very little was done during the war and in this country contracts that were entered into were to fill urgent and immediate needs. All this is changed now, in that the export field is wide open, domestic buying should set in at an early date and improvements that should have been made during the war will be hurriedly provided for.

While the Railroad Administration spent a great deal of money during the past year for new equipment and general improvements, as much if not more is to be expended in this direction during 1919. The money for this purpose, consisting of a revolving fund, was exhausted and the Director-General is asking Congress for an appropriation of $750,000,000 to be used chiefly as an additional revolving fund to meet the capital requirements of the railroads during the coming year. Railroad purchasers during 1919 should be very large therefore, and sufficient business can be obtained from this source to create fair activity in the trade. In addition to railroad demand, the street railways will be large purchasers of equipment as these companies have allowed their plants to depreciate to an alarming extent since they would not purchase any more than absolutely necessary at the high price prevailing during the war.

Export Business Looms Large

Representatives of leading American manufacturers have gone abroad to consult with foreign railroad executives and it is expected that a large volume of business will be booked from this source. Europe's railroad equipment is in a deplorable state and immediate need for large quantities of this material is evident. Most of the immediate European business will be obtained by Americans as the latter are in a position to handle the work at once and insure delivery within a reasonably short period.

Business from other foreign sources is already beginning to come in volume. Locomotive companies have received orders from South Africa and South America. These countries formerly purchased their entire railway equipment from England and France, and the entering of these companies into the American market is a noteworthy and encouraging event.

Thus, there is not much to fear in the outlook for railway equipment business. Prices have come down as expected and may recede further, but the volume of business will soon be larger and while profits will not be as large on individual sales, the result will be the same in the long run as more business will be done. The trade is in a good condition and only a temporary lull is expected before activities are resumed on a much larger scale.

MARKET STATISTICS

		Dow-Jones Avgs.		50 Stocks			Breadth
	40 Bonds	20 Inds.	20 Rails	High	Low	Total Sales	(No. Issues)
Monday, Jan. 27	78.00	81.47	82.51	71.82	71.24	387,000	177
Tuesday, " 28	78.02	81.60	82.66	71.99	71.35	392,400	198
Wednesday, " 29	77.91	80.56	82.11	71.52	70.84	588,800	203
Thursday, " 30	78.00	80.94	82.13	71.57	70.98	432,800	203
Friday, " 31	78.02	80.61	81.97	71.56	71.01	353,100	190
Saturday, Feb. 1	77.99	80.55	81.76	71.15	70.90	181,100	152
Monday, " 3	78.09	80.91	81.68	71.34	70.76	289,700	191
Tuesday, " 4	78.18	81.08	82.54	71.94	71.28	352,200	207
Wednesday, " 5	78.22	80.70	82.70	71.95	71.32	380,900	194
Thursday, " 6	78.28	79.68	82.18	71.81	70.94	457,300	207
Friday, " 7	78.20	79.35	81.85	71.07	70.45	348,200	202
Saturday, " 8	78.18	79.15	81.61	70.77	70.47	153,700	171

READERS' ROUND TABLE

Dear Sirs:

I am a subscriber. When I make an investment I buy the stock or bond outright and pay for it in cash and I try to get the best 5%, 6% or 7% yield of income that is possible, having in mind the soundness of the security. I desire all my investments to be permanent, caring very little, whether the stock fluctuates up or down, but particularly anxious that the present dividend be not decreased and that twenty or thirty years from now the security will be as valuable as it is today.

I note that *Atchison Ry. present dividend rate is* $6.00 and earned $14.50; *Baltimore & Ohio, pref. dividend* $4.00, earned $20.93; *Penna. R. R. dividend* $3.00, earned $3.93, and the *Southern Ry. pref. dividend* 5%, earned $20.60.

Would not these figures, this data in itself, indicate that the Penna. R. R. as an investment is the worst of the four and that the B. & O. pref. is the best; Atchison Ry. better than Penna R. R. but not as good as the Southern Ry. pref.

I presume this question only takes into consideration the earning power per share compared with the dividend for one particular year.

What I would like you to give me and perhaps I voice the need of others, is a list of securities, say twenty in number, stocks and bonds, to appear each issue, that you think are the best at 5%, 6% or 7% income for permanent investment, taking everything into consideration and not only one phase and give in a few words your reasons for listing each security. Another list might be made up for short term securities maturing in three and five years. You might also give a list of more speculative securities yielding 8 or 10% income.

It is immaterial to an investor whether it is a bond, stock, preferred or common. There is surely nothing in a name. What the investor wants to know is the best value he can get for his money, realizing, of course, *that an 8% investment is not as safe as a 5%.*

Respectfully yours.

B. J. H.

We have read your letter with much interest, and it is obvious that you are a "Simon-pure investor." It is not every investor who realizes the value of a strongly fortified security, which not only earns and pays its dividends or interest now, but is reasonably capable of doing so in ten or twenty years' time. As you know, a large number of people grow enthusiastic about a security, purchase it, and then worry, if the security fluctuates a point. You will find some reference to this phase of investment in the "Searchlight." The average investor also fails to realize that a security sells upon a yield based upon *general investment opinion,* so that when a 5% or 6% yield is passed, the security must necessarily have a more speculative character, although not necessarily risky.

There are many classes of investors, but very few strictly in the investment class. Life insurance companies, banks, public institutions, etc., look at a security in the same manner as you, and after purchasing upon merit, do not proceed to watch market quotations, a variation in earnings over a few months, and minor factors that affect the market price.

Of the four railroads you mention, we would place them in the following order, based upon a very exhaustive analysis, investigation and tests, the statistical figures being too inclusive to be quoted, namely:

Atchison, Pennsylvania, Southern Railway, pfd., Baltimore & Ohio pfd.

It might surprise you to see Baltimore & Ohio, pfd. placed last, but B. & O. is on the down-grade so far as earnings power is concerned. B. & O. pfd. was formerly considered a gilt edge stock sold around par. The decline to 55 is not out of proportion to the degree of retrogression in the last two years in the trend of earning power.

Atchison is one of the best, and this road, together with Southern Pacific, Norfolk & Western, and perhaps Northern Pacific, are about the strongest considering the price. Pennsylvania shows a narrow margin above dividends, but has expended huge sums of money and it is not deriving all the benefit that it is entitled to from its very large investment. It is a well esteemed international security. Southern Railway pfd. is in a strong position, likely to be maintained with the prosperity that has come with the awakening of the South.

If you are interested in making a more careful study of these four roads, we could send you copies of the magazine in which each particular issue is analyzed.

Regarding the lists you name, we are not doing this for many reasons, but we have a special service for the benefit of investors like yourself and enclose samples of our Investment Letter, which will give you an idea of the scope of this service and some recommendation along the required lines. We hesitate to publish a list of free lance securities, so to speak, and allow the investor "to paddle his own canoe" after we have put him out to sea. The Investment Letter is the life boat in the case of individual advices.

Always at your service,

THE MAGAZINE OF WALL STREET.

Dear Editor:

As I was one of the contestants for the Liberty Bond prize offered by THE MAGAZINE OF WALL STREET, perhaps I may be permitted to express my criticism of the winner's prize-winning article.

The winner was a Mr. Holbrook.

He starts out with a sort of a mumbling imputation foisted upon some army officer in

France, and in a complaining way points to what he thinks is a moral, based upon the idea that scientific rules are valueless in the presence of wonderful and transcendental genius, letting us thus understand that the great French soldier, and also himself, are great geniuses and all the balance of us are just merely scientific. Now this moralizing style at the commencement of a prize financial article seems to me to be just a little out of place, to say the least of it, and the sweeping aside of all scientific procedure in the first few words seems to be just a little too summary to inspire the reader with full confidence in the sincerity or the judgment of the pen jammer.

He then states that he "don't know anything." Well, to be sure, we know that, but just why he should boast of it at the commencement of his article does not seem perfectly clear.

He studied "investment" and made the absolutely astounding discovery that it is best to buy low-priced dividend paying stocks, or non-dividend paying, such as his Bethlehem Steel then was, and put them into the safe and wait for results. His 60-year-old friend, however, did this with less success than himself (owing, presumably, to his transcendental genius that is perfectly unsullied by any science). What he is getting at in this rigmarole does not, therefore, flash out in very plain colors. He and his friend did exactly the same thing, but his performance was a grand success, while that of his friend was a piece of monstrous folly. That is to show us, no doubt, that what he does is all right, but what other people do must always necessarily be wrong.

He told his wife that Bethlehem Steel was going from 8 to 100. He here wants us to believe that his foresight was something superhuman, for we cannot suppose that he intended us to get the idea that he beat his wife in an argument, for that would of course be unbelievable on the very face of it. But yet he sold his Bethlehem at 52, thus reversing on his own system. Now if he did not and cannot play his own system, then for the love of Mike what are we common dubs going to do with it?

He tells us to buy low-priced mining stocks or copper stocks that have great futures before them. Well, now, then, for the love of Eternal Mimicry, why does he tell us that? He surely knows we have heard of that plan before. Was he afraid we would buy high-priced coppers and mines that were fading, instead of selling short on them? Gracious! A little more of that stuff and he could properly be charged with an endeavor to explain the perfectly obvious.

It is, indeed, a simple yarn of personal experience, and the wonderful glamour of profound egotism that surrounds it gives it what may be considered by many a decidedly fishy order. To be sure, Mr. Holbrook's stuff may be absolutely true, but those little personal stories the profound egotists delight so much in telling on themselves, their private affairs, and so on, always seem just a little far-fetched, if we say no more about it.

He thinks only of himself, writes only of himself and moralizes from the basis of overmastering selfhood. Such style as that, in financial literature, must always be considered permissible nowhere except in the case of some very great and extraordinary character of the very highest financial fame of the time, but for an avowed blockhead, that never carried an account in a broker's office in his life, never traded on margins and never read a book on financial subjects, it surely seems the lower limit of financial authorship.

Finally, if we go over the whole batch of egotism with a charitable temper and with a view to find out what he is trying to say, it seems to wind up with the ancient idea that all you have to do, in order to duplicate his wonderful performance, and achieve financial success, is to buy low-priced stocks for which you can plainly discern a brilliant future, hold on to them for about twenty years and the thing is done. Well, if that is fondly imagined to be the acme of all financial and speculative wisdom, all right, but why not say so in a proper fashion and not droll around over a lot of queer personal experiences that may or may not have occurred just exactly as related in the allegory.

The personal raconteur must always carry with it at least a tint of suspicious color, even in humorous literature, but the moment such style is adopted in financial and *piscatorial romance* it becomes decidedly sombre, so much so, indeed, as to mask any real brilliancy that might be supposed to lie hidden in its *limpid depths.*

As an ancient curio it is, of course, all right to trot out the man who bought U. S. Steel at 13 and Bethlehem at 8, but as a *grand and cardinal criterion* for all modern market operators of the present day he would not quite do, as I believe. Respectfully submitted,

W. H. L.

Dear Fellow Critic:

"Piscatorial romance" hidden in "limpid depths" may or may not illustrate "grand and cardinal" criteria, but we congratulate you all the same W. H. L., in spite of the suspicion that you betray signs of exhilaration through exuberance of your remarkable verbosity. While as a literary effort your critique is blameless of terminological inexactitutes, you might realize upon second thought that as a financial critic you are iconoclastic.

Many, less informed than you most evidently are, would take delight in tearing down the hypotheses that Mr. Holbrook has raised. You have done it in a particularly able and entertaining manner. But, we ask, what have you to offer in place thereof, in simple language, for the delectation and profit (don't forget *the profit*) of the lay investor?

While we admire your literary ability and humorous talent, to the extent that we are willing to publish a criticism upon ourselves, please remember that one good suggestion is better than a whole dictionary of clever phraseology.

Can you find a single suggestion in your letter? "QUIZZ."

New England's Investment Outlook

Boston Tractions — Bond Market — Stagnation in Coppers

By DONALD R. HANSON, Financial Editor, *Boston Transcript*

BOSTON, Feb. 6, 1919.

BOSTON'S traction problem appears nearer a satisfactory solution now than at any time in months. The Boston Elevated Street Railway's earnings have turned the corner, while the Bay State Street Railway, which has had a much more difficult financial problem to solve, is on a fair road to being taken over by the State under the provisions of the "Service-At-Cost" act, enacted last spring, which should prove decidedly to the advantage of those who have been so unfortunate as to invest in local traction securities.

The January earnings of the Boston Elevated for the first time were at a rate sufficiently in excess of those a year ago to assure the public that fares have reached their limit on the upward trend and at the same time place the road on a self-sustaining basis. The Elevated needs $7,500,000 additional revenue a year and the January earnings, with eight-cent fares, were $716,587 in excess of those a year ago. When fares were advanced from five to seven cents last August it was soon found that the decrease in passengers carried offset the benefits expected to accrue in earnings. In December, fares were advanced to eight cents and an improvement in revenues began to appear.

The January statement indicates that regardless of a decreased passenger traffic, amounting to 7¾% less than a year ago, an eight-cent fare is sufficient. However, a new zone system has been worked out which will restore the nickel as the unit of fare, but will curtail the length per ride to about two and one-half miles. Under the provisions of the Act, earnings in excess of the cost of operations and the guaranteed dividends accumulate in a $1,000,000 reserve fund and when the fund exceeds this figure fares shall be reduced to a level which shall insure its maintenance at that figure.

Substantially the same provisions will apply to the Bay State. Serving a thinly settled community, compared with that served by the Elevated, with few short hauls and heavy traffic volume, the Bay State's costs simply went out of sight and a receivership was unavoidable. The legislature has approved the application of the "Service-at-Cost" Act for the Bay State, however, although in minor provisions, it differs with that of the Elevated.

Here is a property capitalized with $23,239,000 of bonds and $24,531,500 stock which the public authorities have appraised at a value of $40,282,300. The act provides for the formation of a new company, with a capitalization not in excess of that amount and 6% shall be permitted on the invested capital. Under the circumstances it would appear that the Massachusetts Electric Companies, which own in turn, all stock except $3,484,300 of the outstanding Bay State preferred stock, will be guaranteed a sum for the next ten years sufficient to warrant the resumption at no distant date of dividends on the preferred stock, possibly at the old rate of 4%. Meanwhile a plan of reorganization is being drawn which is expected to involve a small assessment on Massachusetts Electric preferred.

The Bond Outlook

After several weeks of ease in the bond market investors in New England seem to be testing the market. It is appreciated that prices of the highest grade bonds, while somewhat higher than those early last fall, are still abnormally low. Municipals, tax-exempt in Massachusetts, can be obtained to net 4¼ to 4½% and more; not many years ago the prevailing yield on such investments ranged from 3½% upwards.

Rails that formerly sold to net 4½ to 5% can be purchased to net more than 5¾ and 6%. The deterring factor in purchases has been solely the hu-

man desire to obtain investments at rock bottom prices and the cautious inquiries now suggest that confidence is growing that prices will rally from this level. That criticism over the delay in announcing the terms of the Victory Liberty loan should arise in perfectly logical, for a great deal of the future price trend depends upon the terms of the new loan.

Money Firmer

Money is somewhat firmer in Boston than in New York. Except for a slight improvement in the leather industry business has been quiet and the demand for accomodation at the banks reduced. However, the supply is limited, due to the pressure of Treasury withdrawals, which bear more heavily on the first Federal Reserve district because of the proportionately greater war business carried on in New England and the consequent delay in adjusting contracts. Labor troubles have contributed not a little hesitation in the textile lines, but on the whole a hopeful attitude is maintained for a satisfactory solution of the difficulties in Lawrence. Business men in Boston, have banded together to secure employment for the returning soldiers and the Chamber of Commerce, which fostered this movement, has organized a committee of 100 to further this work. Unemployment is not acute, except in southern New England munition centres.

Investigating Foreign Conditions

The First National Bank of Boston, which has already accomplished a great service for Boston and her trade interests, has despatched two of its senior officers to Australia to study the foreign trade field in the Far East. Charles F. Weed, vice-president, and Daniel A. DeMenocal will arrange their itinerary to include a visit to China and Japan, after Australia, and from their observations the Bank will decide whether further branch offices in those countries will be opened or correspondents secured. Already this institution has established a branch bank at Buenos Ayres, Argentina, and has developed a satisfactory volume of trade with all of the South American countries. Naturally the wool business is the largest item, but leather is a close second in importance.

The Boston Coppers

Copper circles are quiet and the copper list on the Boston Stock Exchange is giving way in prominence to issues of various other industries. Successively in the past year issues like Booth Fisheries, Fairbanks Scale, Gorton-Pew Fisheries and Stewart Manufacturing have been listed here and have imparted much more activity to the local exchange transactions. However, the declining metal prices and the stagnation in the copper business lately may account for the comparative calm in this department. The Lake Superior mines are utilizing the curtailment in production to develop the properties. The Quincy mine is improving its regrinding plants and Isle Royale's developments in the south end of the mine are distinctly encouraging. The Seneca has reached the lode with its shaft and is now awaiting delivery and assembly of its rock crusher, which will complete its surface operations prior to beginning mining operations.

The Most Active Oil

Measured by the amount of interest generated, however, the Ventura Consolidated Oil Fields stock appears to be the most active feature here. Listed over two years ago, the stock declined after an early rising tendency and completely sewed in a large number of local traders around 13. It has since dropped to 4.25 a share, but in recent days has advanced to better than 9. From an unknown prospect two years ago the company has developed its plant refinery and oil lands, mostly from earnings, and has now reached the stage when stockholders may expect some reward for their patience. From sales of less than $1,000,000 in 1917, the company has doubled its business in 1918 and the sales in December and January have been at a rate in excess of $4,000,000 annually.

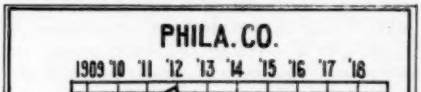
PUBLIC UTILITIES

Philadelphia Company's New Era

Progress Good Under Unfavorable Conditions—Traction Holdings the "Bugbear"—New Financing and Plans for Expansion—Stock's Position

By R. L. HARRIS

WHAT'S in a name? A rose by any other name would smell as sweet," wrote Shakespeare and and recognizing the truth of the venerable bard's statement, a company operating in and around the city of Pittsburgh was named the Philadelphia Company. It seemed to be a particular hobby to name and rename this property anyway. It was originally incorporated in 1871, as the Empire Contract Company. With its scope enlarged, it assumed the formidable title of the Mexican Railway Company in 1873 and changed again in 1875 to the Commonwealth Contract Co., five years later to the Rio Grande Extension Company, and in 1884 it was renamed under it present title.



* Issued 1913.
† Including 1¾ in scrip paid Nov. 2, 1914
‡ Quarterly payments.

Two things are of particular interest in this company's affairs just now: one, the fact that this vast public utility has managed through this recent period of factors adverse to public service corporations, not only to keep its head above water, but to show substantial and consistent earning power; and the other that plans are under way for new financing on a large scale. Stockholders are interested in determining their status under the new financing plan and are particularly interested in the future of the company now that the worst period has been successfully negotiated and that better times are ostensibly ahead.

European Phase Little Known

Very few stockholders of this company and fewer outsiders are acquainted with the share European bankers have had in the company's financing. The beginning was made in 1906 when the London bankers and their associates took a large interest in the United Railways Investment Company. In 1912, an issue of $10,000,000 Philadelphia Company ten-year 5% Gold debentures, convertible into 6% preferred stock was listed on the London Stock Exchange and the bonds were a popular investment. In 1914 there was introduced on the London market, $2,000,000 6% cumulative preferred

stock at $44.75 per share. France had a share too as in 1911 a syndicate was formed in Paris for the introduction of 100,000 shares of Philadelphia Co. common stock at fifty-five dollars per share, and this, by the way, is the first American stock that obtained an official listing on the Paris Bourse.

All in all, approximately $20,000,000 of securities have been placed in European markets through public issues and of course in addition thereto, a considerable amount has been acquired by Europeans in the open market here. For instance, Germany had very considerable holdings, which were privately placed. The significance of the European interest in the Philadelphia Company is simply this: From the outbreak of the war until very near the close, the market has been obliged to absorb large quantities of Philadelphia Co. securities. This liquidation has practically ceased now, and a serious market obstacle is finally out of the way.

Its Diversified Business

This holding company owns the entire capital stock or a controlling interest in ten natural and manufactured gas companies, in two oil, two electric light and power, one coal and coke, one equipment and in many street railway companies in Pittsburgh and vicinity.

From natural gas is derived the largest earnings and its operations in this field are extensive. During the year ended March 31, 1918, 47,367,733,000 cubic feet of gas were sold. During the drilling season from March to November the output of natural gas amounted to 26,973,104,000 cubic feet compared with 29,842,000,000 cubic feet for the corresponding period of the previous year. In spite of the decreased output the company realized $7,639,000 as against $6,258,000 the previous year, from this source. The reason being that the rate has been raised from twenty-seven and one-half cents to thirty-five cents. The true condition of the natural gas department is not pictured by these figures. The high cost of labor, drilling operations, resulted in drilling of only 116 wells as compared with 172 the previous year.

For the eight months ended November 30th 1918, gross revenues were $7,642,164 against $6,262,039 in 1917, and operating income amounted to $3,646,548 against $1,958,354 for the corresponding period the previous year. The showing made by the natural gas department is an excellent one when it is taken into consideration the many difficulties faced last year. Now that these are over bigger things are expected.

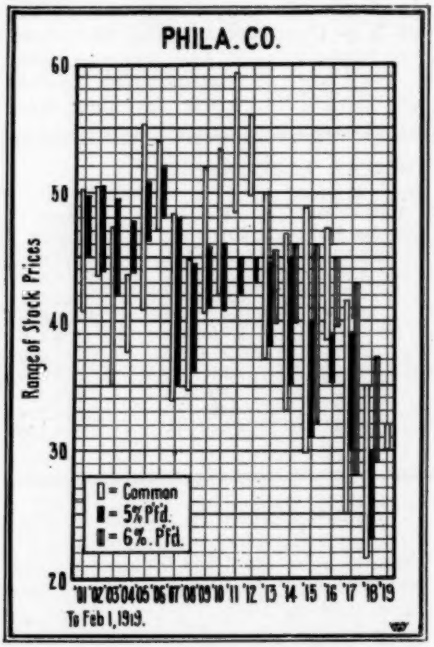
Next in size and earning power is the electric department. The parent company owns all the common stock of the Duquesne Light Co., through the ownership of stock to the amount of $21,720,900 par value. In this department is included several other minor light and power companies operating in the district. The war undoubtedly helped the light and power subsidiaries in that manufacturing

PHILADELPHIA CO. INCOME ACCOUNT

	Total Revenues	Total Income	Times Interest Earned on Funded Debt	Net Income	Year's Surplus
1909	$4,908,763	$5,032,430	4.80	$2,912,035	$ 617,641
1910	6,610,933	6,502,784	6.19	3,609,876	1,274,082
1911	6,538,840	6,530,705	6.21	3,309,821	451,412
1912	6,618,524	6,736,706	5.51	4,451,268	1,430,060
1913	7,052,277	6,255,728	4.00	3,264,609	228,176
1914	7,657,644	6,387,490	3.44	2,818,280	†313,600
1915	7,288,753	6,194,395	3.19	2,836,568	315,120
1916	8,028,519	7,281,520	3.82	3,864,848	1,029,518
1917	9,210,148	7,947,038	4.42	4,391,750	909,334
1918	11,332,440	8,174,558	3.83	4,140,116	764,170

† Deficit.

plants in the Pittsburgh district have been operating at capacity and business in general has been exceptional good. Of course the high cost situation was a factor here too, but the volume of business done was enough to offset these bad effects. Even now the demand for power is more than the capacity of the companies' generating plants notwithstanding the fact that the termination of the war caused an abrupt cessation of work by many plants in the district.



Earnings of the electric light power department are running very high. Gross earnings for the eight months to November 30, last, amounted to $7,555,755 compared with $6,098,978 in 1917, and a total gross of $9,842,394 for the fiscal year ending March 31, 1918. In the eight months ended November 30, 1917, net after taxes amounted to $1,609,738 and in 1918, $2,816,428 an increase of $1,206,690. The net income for the eight months in 1918, was in excess of the total net for the fiscal year ended March 31, the latter amount being $2,709,581.

The oil department, although a small one is profitable and successful. Operations in this department have been handicapped also as in 1918, 111,422 barrels of oil were produced against 122,159 in 1917, and 125,910 in 1916. For the eight months ended November 30, 1918, gross revenues from this department showed an increase over the corresponding period the previous year of $97,294, the total being $569,260. Net after taxes for this period in 1918 amounted to $462,474 against $336,673 for the corresponding period the previous year. Plans are being laid for an active drilling campaign in the near future and strenuous efforts will be exerted to make this department larger and more profitable.

Traction Difficulties

The one thorn in the side of the Philadelphia Company is its interest in street railway concerns in and around Pittsburgh. Owning the entire capital stock of the Pittsburgh Railway Co. amounting to $5,000,000 par value; $14,344,000 of common and $11,655,850 of preferred of the Consolidated Traction Company, which concern leases the Central Traction Co. and other companies, the parent company is decidedly interested in these tractions and their success or failure has no little effect on the value of the Philadelphia Company's shares. In April, 1918, Pittsburgh Railways asked for the appointment of a receiver. Its net income for the year ended March 31, 1917, after deducting rentals, interests, etc., dropped from $111,608 the previous year, to $10,272.

That the Pittsburgh Company was never very successful is seen by a record of its earning power of the last several years. Its only one good year was 1914, when a surplus of $114,278 was shown. In 1913, its deficit was $473,643, in 1912, $2,534,564, and in 1911, $1,483,251, and in 1910, $1,238,574.

The effect of the street railway situation on Philadelphia Company's affairs can be appreciated when it is

realized that stocks and bonds of these companies are carried at a valuation of $30,265,796 and the properties are probably worth very little more than one-half of this amount. In 1918, a deficit of $570,533 was shown against the deficit of $6,503 for the previous year on all the street railway holdings. The worst probably has been seen in street railway conditions all over the country but it will take many years before the Philadelphia Co.'s operations in this field are productive.

Earnings—Asset Value—New Financing

Earnings available for dividends on the common stock of the parent company have remained consistantly satisfactory during the last several years and strange as it may seem, they show a considerable increase in the last two years. In 1914, 9.91% was earned on the common, 1915, 8.88%; in 1916, 10.28%, in 1917, 12.44%, and in 1918 slightly under the latter amount. Gross revenues have shown a steady increase as in 1914, they were $7,657,644; in 1916, $8,028,519; in 1917, $9,210,148 and in 1918, they moved abruptly upward to $11,332,440. Expenses were higher however in 1918, so that net showed a very slight falling off from $4,391,750 in 1917 to $4,140,116.

There has been considerable dispute as to whether the company should have allowed such large disbursements on the common stock in the face of its liberal capitalization. A more conservative policy would have been to right off some of the bonded indebtedness thereby laying a stronger foundation for the future. It will be noted in this connection that in 1918 current liabilities were $4,711,065 against current assets of $2,960,704, a rather unhealthy situation. As a matter of fact the current liabilities have exceeded current assets in every year from 1913 to 1918 excepting 1914. Its cash position is weak, also as in 1918 this item only showed $570,650 against $1,026,248 in 1917 and $2,624,290 in 1916; such a large company should certainly maintain a better balance than this.

Although the net assets applicable to common stock amount to about $59 a share on the surface it must be remembered that in making this valuation the stocks and bonds of controlled companies are carried at book value. While some of these are worth it, drastic reductions should be made in the case of the traction securities, thus it is safe to figure that $15 a share should be written off leaving a net asset value of about $44 per share.

Obligations maturing in 1919 will be written off by a $10,000,000 note issue. These notes will be used to retire $7,000,000 2-year 5½% collateral gold notes due in April and $1,957,000 5% gold debentures due in August. Net earnings for the twelve months ended December 31, 1918, amounted to $6,416,682 and the balance over fixed charges to $4,933,444. This income was over three times the annual fixed charges including interest on the new notes. With maturing obligations thus taken care of, the stockholders' position is more secure.

Position of the Stocks

That the preferred issues are safe can be readily appreciated. They are in the investment class and dividends seem assured for years to come, as even in the worst years earnings on these issues have been well over 40% and in later years have ranged between 75 and 80%.

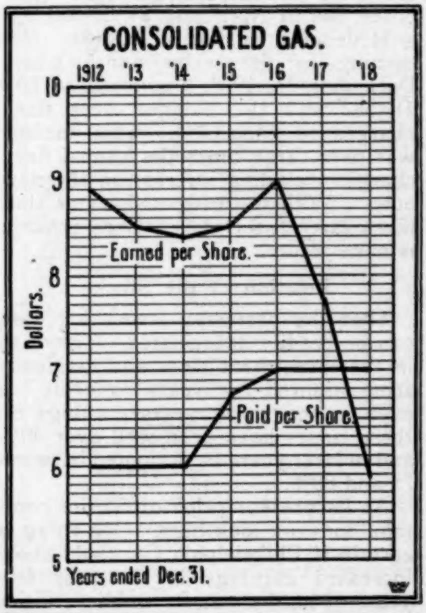
At its present price of 30 the common does not look high. One thing is certain if Philadelphia Co. could show increased earnings in the past few years of hard times for public utilities the future augurs well. Public Service corporations have probably seen their worst days for a while and the Philadelphia Company with plans for expansion under way, should do as well in the next decade as in the last. Thus the stock at its present price with a 6% dividend is a semi-investment issue with good possibilities for the future.

Status of Consolidated Gas

Has It Discounted Falling Earnings?—Some Interesting Statistics—Status of Stock

By JOHN MORROW

CONSOLIDATED GAS is a regulated "public utility" and it naturally follows that conditions have not been at all to its liking during the past few years. But despite the handicaps of a fixed unit of revenue, and most elastic units of expense, the company has been able to maintain the regular 7% dividend rate upon the $100,253,000 stock out-



standing although in the year 1918 this dividend was not earned, and it was necessary for the company to draw upon accumulated surplus in order to make payments. Only $5.68 a share was returned upon the share capitalization last year, the poorest showing since the year 1908 when only $5.51 was earned. In the years between per share earnings have run from six and one-half dollars to nine dollars.

If Consolidated Gas were to be judged on the basis of the gas business in the metropolitan district, its position would be sorry enough. It is the strength of the subsidiary companies, dealing mostly in electric light and power, that has kept the parent company in the class of respectable dividend payers, and the position of these companies is apparently strong enough to tide the controlling concern over its lean period, unless that period becomes more protracted than now seems likely. As was said at the recent annual meeting of the company by an official, preparations have been made for a "rainy day." The second graph illustrates the proportion of gas sale profits to total income and also indicates per share earnings over a period.

Importance of N. Y. Edison

The largest and most prosperous of the controlled companies is the New York Edison Co. with a funded debt of about $38,000,000 and share capital of $65,945,417. Consolidated Gas owns all of this stock. New York Edison in the years from 1909 to 1916 inclusive showed annual earnings that ranged from $18.80 a share to $14.17 a share. In 1917 the company began to feel fully the effects of increased costs, and earned but $10.46 a share. In that year the ratio of operating expense to operating revenue was over 50%, whereas for several years previous to that the ratio kept under 43%. There has been a steady development of business, but not enough to offset the results of war conditions.

Earnings for 1918 are not yet available, but sales of electric current increased not quite 1% over 1917. It may be assumed that New York Edison showed net profits last year that brought per share earnings to lower

figures than those which have been reported for years. However, the company, as of December 31, 1917, had a profit and loss surplus of $36,323,410, and this is most interesting when it is considered that Consolidated Gas carries the investment in New York Edison stock on its books at only $39,-105,369. For several years, when earnings were running far above that total, dividends of only 6% were paid, and not until 1916 was the rate increased to 7%.

TABLE I—SURPLUSES OF SUBSIDIARY COMPANIES AS OF DEC. 31, 1913, AND DEC. 31, 1917

	1913	1917
Astoria Lt., Ht. & Pr.	$1,824,551	$4,036,703
Central Union Gas	3,346,240	5,025,806
N. Y. Mutual Gas Lt.	1,103,412	941,807
N. Y. & Queens El. L.	675,409	1,364,996
N. Y. & Qu'ns Gas Co.	103,374	144,491
N. Y. Edison Co.	29,614,703	36,323,410
Northern Union Gas	579,941	896,078
United El. Lt. & Pow	*38,441	2,061,800
Total	$51,273,533	$37,868,931

*Deficit.

All told, the companies controlled by Consolidated Gas have a funded debt of $93,557,884 and share capital of $130,169,101. This includes the New York Edison Co. Of the capital stocks of these companies, Consolidated Gas owns all but an inconsiderable amount, and it is in this ownership of strong subsidiaries that the main reason for the former investment position of the company's stock rested. While it is not possible to give the figures for 1918, a comparison of the profit and loss surpluses of the controlled companies, as of December 31, 1917, with the surpluses as of December 31, 1913, gives a working idea of the progress made. This is shown in Table I.

It will be noted that the total and loss surpluses of these companies, as of December 31, 1917 were equal to over 50% on the stock of the Consolidated Gas Co. The increasing earning power and stronger financial position of these companies have made it possible for Consolidated Gas to maintain a steady dividend rate of respectable size, even when apparent yearly earnings did not show a large margin over dividend requirements. This margin may at times to the casual observer look as if it were almost too slight, but that argument loses all force when the accumulating equities behind the stock of the parent concern are thrown into the balance.

Gas Earnings Small

Earnings of Consolidated Gas Co. in 1918 from the sale of gas alone were almost "shocking." The amount of gas sent out by the company in 1918 was 7% greater than the quantity sent out in 1917, and yet the net profit from the gas business was only $94,400. And this on sales of 32,998,377,900 cubic feet of gas. The company has stated that its investment in gas making property, exclusive of going value and other intangible property, was $69,697,700, so that the return on this investment in 1918 was 0.13%. For ten years the price of gas has been unchanged at eighty cents per 1,000 cubic feet. The company has entered upon a suit to invalidate the eighty-cent gas law, but it will be months before a decision can possibly be reached.

Figuring in round numbers, in former years the net profits from the sales of gas approximated interest charges on Consolidated Gas funded debt, and often exceeded them.

This left dividends from the stocks of subsidiary companies free to support the payments upon the Consoli-

TABLE II—EXPENDITURES FOR PLANT EXTENSIONS AND UPKEEP

	1915	1916	1917	1918
Additions and extensions	$6,309,782	$5,032,810	$5,200,455	$6,014,579
Repairs	4,163,352	4,381,942	4,924,834	4,954,265
Renewals	2,351,756	2,429,294	1,500,893	1,796,810
Total	$12,824,890	$11,844,046	$11,626,182	$12,765,654

dated Gas shares. It seems difficult to believe that the results of the 1918 year are likely to be repeated, but officials of the company are authority for the statements that decreases in operating costs are not yet in sight.

Probably the average trader or investor, when thinking of the possibilities in Consolidated Gas, never gives a thought to the market for coal oil, or to the prices for that product. And yet it has close connection with the fortunes of the company. Four years or so ago, the price to Consolidated Gas was about three cents a gallon. Now it is seven and a half. This is an increase of a cent a gallon over the price of last year, and normally a variation of a cent a gallon means $1,300,000 to Consolidated Gas and its affiliated companies, an amount equal to $1.30 a share on the outstanding stock of the "big" company. The contract for 1919, while it runs for the whole year gives the company an option of cancellation at the end of six months, and if the market should decline, there would be a decided benefit to be gained from this option.

TABLE III—PRICE RANGE OF CONSOLIDATED GAS STOCK

	High	Low
1912	149½	135¾
1913	142⅜	125⅛
1914	139½	112½
1915	150½	113¾
1916	144¾	129¾
1917	134⅝	76½
1918	105⅜	82¾
*1919	97½	87⅛

*To February 4.

In addition to the strength in the financial position of the Consolidated Gas group taken as a whole, a consistent program of additions, extensions and repairs has been followed, as Table II shows. These figures would indicate that there has been a policy of liberal upkeep in an endeavor to keep plant at first rate operating efficiency.

Of course, the increase in the price of coal oil has not been the only factor affecting operating costs. Labor has been higher, coal has cost more, and all materials have been on the price upgrade. The total increases in the operating costs of Consolidated Gas for the year 1918, not including subsidiaries, was $2,679,216, equal to about $2.67 a share on the capital stock, and indicating what net profits from gas sales would have been, if costs like revenue unit had been stationary. Of course there were increases in the cost of operation for the subsidiaries, and their rates have been rigid; in fact the price for electric current has been declining. In 1917, New York Edison reported the price of current sold per kilowatt hour at 4.21 cents compared with 4.43 cents for the previous year, and 4.46 cents the year before that.

Such factors as the units of operating costs, and the average unit of revenue, while perhaps somewhat technical, must be considered in judging the prospects of a company like Consolidated Gas. The volume of business is steady, and shows a sure progress, which if not conspicuously great, is constant. Thus it is a problem of getting the most out of a quantity production of the most essential products. It has been impossible for the company to check costs during the past few years, and it has been impossible to obtain any sympathy from public authorities in regard to conditions. Before relief as to gas rates may be obtained, the eighty-cent law must be invalidated by the courts. No attmept is being made to obtain increases in the electric current rates.

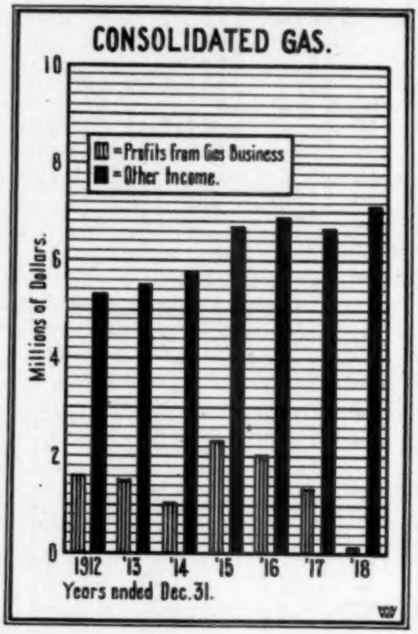
It seems quite reasonable to assume that at least by the second half of the current year costs will begin to come down so that the effect will be noted in net profits. Principles of economic laws which have been working all against the company should in the not distant future begin to work on the other side. Also, the business of the electric companies was hurt during the early part of 1918 by restrictions put upon lighting by the Fuel Administration. Those limitations upon business were, of course, only temporary, but they had some little effect upon earnings. Of the total business done by Consolidated Gas and its affili-

ated companies, probably almost 60% comes from the electric departments. As is only natural, this proportion has been increasing over the past ten years, and proportion of gas has been declining. The movement is gradual, however.

Rating of the Securities

Consolidated Gas has an outstanding bond issue which has been in general favor. That is the issue of convertible gold 6% debentures, due February 1, 1920. There are not quite $25,000,000 of this issue outstanding, and the bonds are convertible into common stock at par on any interest date to February 1, 1920. Interest is payable February, May, August and November 1. With the price of the stock substantially below par for some time past there have been no attractions to the conversion privilege, but the bonds are a sound issue, and secure as to interest and principal. It is to be taken naturally, that barring the unforeseen the company will be able to make satisfactory arrangements for the maturity of the issue a year hence. This is the only bond issue the parent company has.

Consolidated Gas stock has discounted the changed complexion of the company's earning position materially as Table III will indicate. In fact, it would appear as if market prices had thoroughly reflected conditions. While its investment position has been altered, the stock is now in shape to respond to improvement in the factors affecting the business, and has possibilities on any weak spots in the market, if the purchaser has some courage and patience.



SAVINGS BANKS AND THE VICTORY LOAN

SAVINGS banks throughout the country, through the agency of the Savings Bank Section of the American Bankers' Association, are planning to take a much larger part in the floating of the next Liberty Loan than they did in any of the previous drives.

They purpose to help the Government by taking a large share of the bonds themselves and by inducing individuals to save and buy bonds. A part of the new program includes the waging of warfare unending against fake promoters who seek to deprive Liberty Bond holders of their investment.

Extremely large increases in the deposits of New York City savings banks have been registered since November 1 last. Much of it is due to the returning of previously hoarded funds. The increase in deposits of fifty-nine savings banks of the greater city between November 1 and January 1 reached $42,645,193, and between January 1 and January 20 reached $32,458,449. Adding to these figures $27,000,000 of interest which was paid during this period, the deposits of savings banks in this city since November 1 rose more than $100,000,000.

Bargain Indicator of Public Utilities

NOTE.—The minus sign (—) before figures below indicates a DEFICIT for the year equal to the per cent. on stock given. Additions and betterments are included in earnings given, wherever distinguishable from ordinary expenses of maintenance, since earnings invested in improvements of the property increase the equity of the stockholders and therefore render the stock more valuable. The value of a stock cannot be judged by its position in the table ONLY. Earnings for successive years as given should be carefully examined, with a view to stability and growth as well as amount. A poor stock may sometimes stand up well in this table because its price is low compared with latest available earnings.

	High 1916 to Date	Low	Present Div. Rate	Dividend Yield on Recent Price	Dollars Earned Per Share 1915	1916	1917	1918	Recent Price	Earnings Last Fisc. Year on Recent Price	INTENDING PURCHASERS should read all notes carefully and consult "Financial News and Comment." We gladly answer all inquiries of yearly subscribers.
Phila Co., com	47¼	21½	3	10.00	4.44	5.14	6.22	4.26	30	28.43	Showing up well.
Brooklyn Rapid Transit	89	18¾	0	0.00	7.40	7.53	6.97	5.52	21	26.28	Assessment discussed.
Am. W. W. & El., 1st pfd	...	...	7	10.77	9.57	10.18	12.96	10.73	65	16.50	Conservation effective.
Amer. Pub. Util., com	...	...	0	0.00	3.83	5.35	7.18	3.86	25	15.44	Better possibilities.
Detroit Edison	149	98	8	7.27	13.70	14.61	10.28	9.08	110	8.25	Large equity in property.
Mackay Co., com	91	70	6	8.33	5.28	5.36	6.35	5.87	72	8.15	Government decrees seem harmful.
Third Ave. Ry., com	68⅛	12⅝	0	0.00	4.19	5.98	—9.78	—2.06	14	0.00	In poor condition.

NO 1918 EARNINGS REPORTED

	High 1916 to Date	Low	Present Div. Rate	Dividend Yield on Recent Price	Dollars Earned Per Share 1914	1915	1916	1917	Recent Price	Earnings Last Fisc. Year on Recent Price	
Rep. Ry. & Lt., com	...	...	0%	0.00	1.95	2.97	3.55	5.88	18	32.66	Seems to show up better.
Comm. Pr. Ry. & Lt., com	...	...	0	0.00	8.28	7.42	8.80	5.77	20	28.85	Adapting itself to conditions.
United Light & Ry., com	...	...	4	10.52	3.74	2.41	4.41	8.68	38	22.84	Should do better.
Ohio Cities Gas	144	31⅝	5	12.50	.....	1.92	2.30	8.70	40	21.75	New financing.
Cities Service, com	360	100⅜	§6	1.94	11.28	15.27	36.74	60.73	310	19.58	Earnings improved.
Western Union Telegraph	105½	76	7	8.04	5.38	10.19	13.59	14.40	87	15.55	Condition bettered.
Detroit United Railway	128⅛	80	8	8.88	13.16	15.69	23.05	14.50	90	16.11	Increased earnings.
Consol. Gas, Balt., com	127	87	8	8.33	11.43	11.56	13.89	15.02	96	15.66	Showing better returns.
Columbia Gas & Elec.	54	25⅝	4	9.75	0.59	0.76	2.31	5.87	41	14.31	Earnings showing up well.
Twin City Rapid Transit, com.	90	39⅛	0	0.00	8.05	6.83	9.22	6.04	45	13.44	Earnings increased.
North American Co	76	39	5	10.41	6.41	6.06	7.26	6.05	48	12.60	Conditions improve.
Pacific Gas & Elec., com	69	28¾	0	0.00	7.78	10.48	9.10	5.57	49	11.36	Prospects good.
Standard Gas & Elec., pfd	...	...	3	9.09	2.63	3.15	3.60	3.70	33	11.21	Increased rates help.
Laclede Gas Lt., com	104	80	7	8.75	8.20	9.24	11.21	8.58	80	10.72	Earnings increasing.
Amer. Tel. & Tel.	124½	90⅛	8	8.00	9.38	9.09	9.61	9.65	100	9.65	Guaranteed return.
Pub. Serv. Corp., N. J.	137	82	8	9.75	6.50	7.88	11.77	7.92	82	9.65	New financing.
Montana Power, com	115	64	5	6.75	2.42	3.73	8.52	7.08	74	9.56	Has turned corner.
Am. Lt. & Trac., com	...	...	†10	4.35	22.32	24.62	25.66	20.98	230	9.12	Company well fortified.
People's Gas Lt & Coke	118	35	0	0.00	8.55	8.39	5.39	4.44	49	9.06	Showing up well.
Kings Co. El. & P.	131	87	8	8.00	10.85	11.66	11.88	8.81	100	8.81	Margin over dividend not large.
Amer. Power & Light, com	...	...	4	6.66	5.24	4.21	6.37	4.57	60	7.51	Improvement shown.
Cons. Gas of N. Y.	145	76½	7	7.36	8.40	9.29	8.99	7.14	95	7.51	Increased rates possible.
Pac. Tel. & Tel., com	44	17	0	0.00	1.89	0.56	1.25	1.79	24	7.48	Under Government guarantee.
So. Cal. Edison, com	89	73	7	8.23	6.09	6.79	8.61	5.05	85	5.94	Conservation effective.
Northern States Power, com	...	...	0	0.00	7.32	3.22	5.91	2.11	65	3.24	Improvement in earnings.

§ Also pays regular monthly stock dividend of 1%.
† Also pays 2½% in common stock quarterly.

PETROLEUM

Texas & Pacific and the Ranger Field

Latest Developments As Reported By The Magazine of Wall Street's Representative—Oil Prospects For the Texas & Pacific Railway

By OUR FIELD REPRESENTATIVE

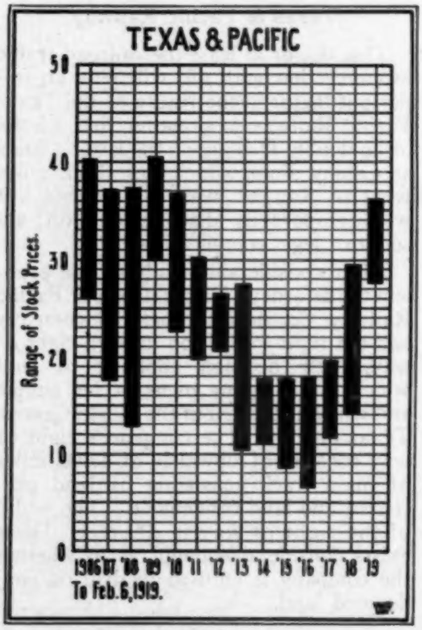
Dallas, Texas.

TEXAS has gone oil-mad. The bustle and roar, the seething excitement in the Ranger, Burkburnett and other oil areas equals anything known in the history of booms. Morning, noon and night the search for liquid gold—oil never ceases and new tales of huge fortunes, made in the twinkling of an eye, pours fresh fuel on the flames. Every train brings fresh crowds of rainbow-chasers ranging from the penniless soldier of fortune to the opulent oil magnate. It is the story of Pennsylvania, California and Oklahoma told over again only with different setting and different developments.

On October 1, 1917, I doubt if a round dozen of all The Magazine of Wall Street's thousands of readers had ever heard of Ranger, that sleepy little Texas town, dust-ridden in summer and mud-bogged in winter.

The town of Ranger was named by W. H. Abrams, who was for a number of years land and tax commissioner of the Texas Pacific Railway. He christened the town Ranger because it was the headquarters of a company of the famous Texas Rangers. On February 4, by a vote of approximately five to one, the citizens of Ranger held a special election and voted to incorporated the town. Approximately 40% of the town lots in Ranger are owned by the Texas Pacific Railway.

It was in October of 1917 that the Texas & Pacific Coal Co. brought in the "discovery" well on the McClesky farm to the southwest of the village which precipitated the Texas oil boom and caused the company to change its name to Texas & Pacific Coal & Oil Co. Oil was struck at 3500 feet and that is why the Ranger field is known as a rich man's district. It costs a lot of money to sink a well in the Ranger district, sometimes as much as $60,000 while the average price is probably not far from $40,000. On page 661 of our last issue we printed a map showing in a general way the boundaries of the Ranger field. The "proved" area forms a



parallelogram about sixty miles long and a few miles in width with the top at the northern part of Stephens County and extending through Eastland County into the northern part of Comanche County. Last year eighty-three wells were com-

pleted in Eastland County alone with an initial production of 60,000 barrels of crude oil per day while 21 dry holes and 6 gas wells were drilled. The figures for Stephens County, which lies due north of Eastland, show 33 completed wells with 8 dry holes and 4 gas wells and an initial production of more than 11,000 barrels per day. Explorations so far in the great, plunging anticline, known as the Bend Series, of which Ranger is the center, indicate a production this year in the neighborhood of 200,000 barrels per day. At present market prices of $2.25 per barrel this production would be worth $450,000 per day or $162,000,000 per year. No wonder the Texas farmer, his frame attenuated with years of wrestling with thin and refractory crops, has gone temporarily insane on the subject of oil.

Texas & Pacific Railway

That oil, or at least the railroad traffic in connection with oil, will play an important factor in the future of the Texas Pacific Railway is a matter that admits of no doubt. Drilling on the latter's lands at Colony Fort, which lies three miles west of Ranger, was commenced but was temporarily discontinued on account of legal complications.

After considerable study of the problem the attorneys for the Texas & Pacific Railway Co. decided that the company had the right to drill on its own right of way, their decision applying to land which the company owns in fee simple and which is located in the North Central Texas district. The company's right of way consists of upwards of 1,000 miles of main track consisting of land purchased and land condemned. The width of the right of way is 200 feet. There exists considerable doubt as to whether the company is entitled to drill on condemned land.

Texas & Pacific's Improvement

Irrespective of developments which may or may not place the Texas & Pacific in the status of an oil producer the Texas oil boom will mean considerable for the railroad. This year will see great activity in oil development and Texas will be the center. Development work is proceeding in eight counties of the ten which are on the Bend Series anti-cline and this means an augumentation of passenger and freight traffic.

In this connection the following remarks by a scribe writing for the "Dallas Morning News," are interesting as well as informative:

> "The bunch (at Ranger) that used to go down to the depot to see No. 2 go through are probably still going down, but there are no easy loafing places on boxes and trucks. About 200 others go down to get on the train. And about 200 others get off the train. * * * The attitude of the railroad employes towards the public is not much different from the days before oil was found and a less than carload shipment represented a day's receipts as compared with seventeen trainloads now."

The graphs which are published shows that the railroad company has enjoyed much improved earnings during the years 1916-1917, which started before oil was discovered and which therefore, cannot be entirely due to the oil boom. Texas & Pacific's improvement is due to an increased freight and passenger traffic with a greatly decreased operating ratio.

The extent which the percentage of operating expense to gross has declined is shown following:

*1912	78.4%
*1913	81.7
*1914	76.8
*1915	77.2
*1916	72.1
1916	68.9
1917	67.7

*Years ended June 30; others December 31.

Texas & Pacific has twice gone into the hands of receivers. It was incorporated in 1871 but following the crop failure of 1884 went to foreclosure and was sold and reorganized in 1887.

In 1916, on failure to pay a judgment of $410,000, the company again went into the hands of receivers where it now is. The Government control has

authorized the expenditure of upwards of $6,000,000 for betterments.

Texas & Pacific has an authorized issue of $50,000,000 stock of which $38,763,810 is outstanding and of which Missouri Pacific owned $6,555,-000 on December 31, 1917. Its bond issue totals $54,621,000 and there are $1,584,000 equipment notes outstanding. The company has no preferred stock or other notes. During the current year $292,000 of these notes mature and an equal amount in 1920.

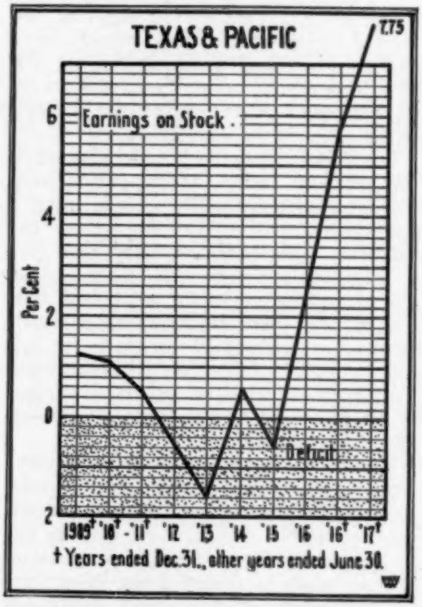
1918 Earnings Disappointing

Up to last year it looked as though the company was enjoying a real renaissance but the showing for 1918, so far as reported, does not fulfill the 1916-1917 promise. For the eleven months ended November 30, total operating revenue showed a splendid gain of nearly $4,000,000 but this was more than eaten up by increased operating expenses which increased$5,300,000, in round figures. Of this increase approximately $3,000,000 was for maintenance and equipment but transportation expenses showed the disproportionate gain of $2,350,000.

It is well enough for the bondholders that the company turn as much as possible of its earnings back into the property but what about the stockholders? As it stands the bondholders are the only ones that seem likely to benefit for a long time at least.

Two Angles to the Situation

There are two angles to the Texas & Pacific situation. The first is the road's prospects in the light of oil developments and the second its prospects as a carrier. In regard to the first consideration it appears that the road's traffic is bound to benefit from the Texas oil boom but whether the improvement will equal that produced by troop traffic and Government war work of the war period, remains to be seen. Also whether expenses can be kept within bounds. As to whether the property will ever figure as an important oil producer on its own account there is a strong element of uncertainty. In the first place it has yet to be demonstrated that the company owns or controls important improved oil properties and secondly that it will be permitted to become a producer provided the oil was found. The company's charter contains nothing that could be construed as permitting it to engage in the oil business but there is no doubt that properties which it owns in fee simple it might drill or at least lease to others on a royalty basis.



While as a carrier Texas & Pacific is much better off than several years ago, there is still a very, very long road to be traveled before daylight will appear for the stockholders. It would seem that a reorganization would be the simplest solution of the problem.

In view of these facts and also in the half century, lacking two years, of its corporate existence, the company has paid no dividends on its stock and is not likely to pay any, it would seem that at 32 the stock has fairly well discounted the favoring elements in the situation.

(Texas & Pacific's oil prospects will be discussed more fully in a later article.)

Peace Plans of Standard Oil of N. J.

Working At Full Capacity—Its Big Fleet—Entering Producing Field

By C. N. LINKROUM

STANDARD OIL COMPANY of New Jersey played the most prominent part of any of the oil companies in supplying the Allies' petroleum requirements. It would not be an exaggeration to say that the Allied military machine would have broken down had the facilities of the New Jersey company not been at its service both before and after the United States entered the conflict.

The facilities of the premier Standard Oil Company during the war period were concentrated principally upon keeping a steady stream of oil moving across the Atlantic. The refineries of the New Jersey company which have the largest capacity of any in the world were kept running at full speed in supplying a maximum of gasoline and high grade fuel oil and through its large fleet of tankers the company has furnished the major portion of the transportation facilities for transatlantic shipments.

Notwithstanding its remarkable war record a few short months after hostilities have ceased we find the company still working at full capacity and making extensive plans for peace-time expansion. Before peace is declared the New Jersey company has apparently easily adjusted itself to the new conditions and is preparing to take the leading part in supplying post-war requirements.

Its Big Fleet

The fact that the Standard Oil Co. of New Jersey operates the largest merchant fleet flying the American flag suggests that its marketing interests are centered largely outside of the United States. The 45 tank steamers flying the stars and stripes for the New Jersey company today have a carrying capacity of 2,736,000 barrels of oil, notwithstanding that the company during the war period lost eight of its large tankers with a carrying capacity of 333,000 barrels.

In addition to these tankers the company operates six auxiliary motor general cargo vessels and two general cargo steamers with a deadweight tonnage of 23,900 tons, and is now building two tank steamers with 136,000 barrels carrying capacity and 20,300 deadweight tons.

To supply the products carried over the seven seas by its gigantic fleet the New Jersey company operates in the United States a group of refineries which last year run an average of about 125,000 barrels of crude oil daily. In addition to the plants directly operated by the company and its subsidiaries in the United States it operates through its subsidiaries, refineries in Canada, Mexico and Peru which give it an additional refining capacity of close to 40,000 barrels daily.

The company's principal refineries are located at Bayonne, Bay Way and Jersey City, New Jersey, Parkersburg, West Virginia, Baltimore, Md., and a topping plant at Yale, Oklahoma. Through the Standard Oil Co. of Louisiana, all of whose stock is owned by the New Jersey company, it operates a plant at Baton Rouge, Louisiana, with a daily capacity of 45,000 barrels.

In Mexico the company operates a 10,000 barrel topping plant at Tampico, through the Imperial Oil, Ltd., it operates four plants in Canada with a combined capacity of between 20,000 and 25,000 barrels a day, while the International Petroleum Co., Ltd., a subsidiary of Imperial Oil, operates a refinery at Talara, Peru, with 6,000 barrels daily capacity.

Entering the Producing Field

It is only within the past few years that the company has entered the producing business in an aggressive manner. Previous to that time there had usually been an abundance of the raw material of the industry and the company's policy had been to allow "the other fellow" to take the risk of wild-catting. After the dissolution in 1911 the company's only interest in production was through the Car-

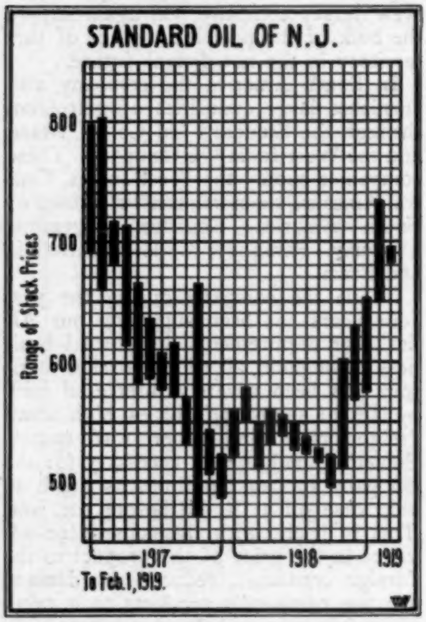
ter Oil Company's operations in the Pennsylvania and West Virginia fields. But the keen competition which has developed for crude oil production within the past few years made it necessary for the company to extend its producing activities.

The Jersey company is still principally dependent upon outside sources for its supply of raw material, latest statistics showing that the company supplied only 16.68% of its own crude oil requirements, but even so the Carter Oil Company is to-day one of the country's leading producers of high grade oil with a daily output of about 20,000 barrels. The New Jersey company also controls production in Louisiana through its subsidiary operating in that state.

Nowhere have the changed conditions in the producing end of the oil business been better illustrated than in the activities of the Carter Oil Co. As a first step in extending its operations this company jumped from Pennsylvania to the Mid-Continent fields of Oklahoma and Kansas and startled the oil fraternity of that country in 1914 by purchasing several million barrels of oil in the Cushing field at the time the market reached its low point of 40 cents a barrel. Since then the company has been steadily broadening its operations in the Mid-Continent Field and has extended its activities to other states, notably Wyoming, where it is now conducting a vigorous wild-catting campaign throughout the state. There is also reason to believe that the company is looking with covetous eyes upon the fields of North Central Texas which have recently attracted country-wide attention through the bringing in of a number of gushers flowing oil of an unusually high grade. It would not be surprising to hear of developments affecting the New Jersey company in these new fields in the very near future.

Marketing Organization

Last, but by no means of least importance, comes the company's extensive marketing organization, and it is in connection with this branch of the business that it is now making its most comprehensive plans for development. As has been previously pointed out, the company's principal markets are in foreign countries, and its operations in these countries are handled by various subsidiaries. Through the American Petroleum Company, a Dutch subsidiary, the company supplies Holland and Belgium. The business of this company during the war was reduced to a minimum, but it is likely that the company's peacetime trade in these countries will soon show a large expansion, as before the war Belgium and the Netherlands took



care of a large proportion of the American output of illuminating oil.

The Bedford Petroleum Company supplies lubricating oils and wax to France, Belgium, Portugal and Spain. Through another subsidiary the company supplies Denmark, Norway, Sweden and Iceland and it is understood that negotiations are now in progress for resumption of business on a big scale in the Scandanavian countries. Through its Italian subsidiary the company supplies the petroleum needs of Italy, Malta, Switzerland and North Africa.

In Roumania the company before the

war operated extensive producing and refining properties which supplied oil to nearby markets. Within the past few weeks the company has sent an expedition to this country and its operations in Roumania should soon be running on a big scale. Before the war the company also supplied its products to Germany. Its relations with this country were naturally completely broken off during the war period, but Germany is dependent upon outside sources for her petroleum requirements and it seems likely that the New Jersey company will again supply the bulk of the petroleum needs of this territory in the not distant future.

In South America the company also furnishes large quantities of petroleum through the Standard Oil Co. of Brazil and the West India Oil Company. These companies supply the West Indies, Central America, the north coast countries of South America, Ecuador, Argentine, Uruguay, Paraguay, Chile and Bolivia and Brazil.

While the company during the past four years has been supplying our Allies' war requirements, its normal business throughout all of its foreign territory has been severely interfered with by lack of shipping facilities, high ocean freight rates and other war causes. Sometimes it has been necessary for the company to pay ten times as much to ship case oil as it did before the war. This in itself, with the consequent advance in the price of the product to the foreign consumer, reduced the demand for the company's products to a minimum, but even so it has been impossible for the company to supply the absolutely essential requirements of its foreign customers.

Now that the war is over and the company is again operating its own fleet it is needless to say that it is preparing for a wide development of its foreign trade. First of all, it will be necessary for the company to fill up the depleted stocks and this will keep the company's tankers employed at full capacity for a long period. Then, should come a more widespread development of its markets. There is no question that Europe has learned the value of petroleum during the war as it could never have learned under any other conditions. The automobile will be used more than ever and there is a big field for the development of the farm tractor. This, of course, means increased consumption of gasoline and lubricating oils, while the demand for kerosene will continue on as large a scale as ever and will probably increase.

Earnings and Prospects

Under these conditions it is not likely that the big refining companies and especially the export companies are going to run into a period of depression. It is principally due to a knowledge of these conditions that there has recently been substantial buying of Standard Oil of New Jersey and other leading issues of the oil group. It may be that these companies will later on make special distributions to their shareholders, but it does not appear that this is the principal incentive for the present buying of the leading oil companies' securities.

The end of the war found the oil industry in a stronger position than any of the basic industries and its development is likely to continue on a larger scale than ever before now that we have returned to peace conditions. This, of course, should mean greater earnings for the leading oil companies, as their gross should continue at least as big as during the war period and net will be increased by a large reduction in taxes.

It is impossible to say what Standard Oil of New Jersey is earning at present. In 1915 the Federal Trade Commission showed that net earnings were equal to 52% on the $100,000,000 capital stock but since that time earnings have undoubtedly shown a big increase. Some day the stockholders of the New Jersey Company will receive a luscious melon-cutting and in the meantime the value of the stock is being steadily increased from year to year by the compounding of the company's earnings.

The stock has recently had a substantial advance, but is still considerably below its former high level of over 800. Either for the immediate future or for the long pull the stock looks attractive and should eventually sell at considerably higher prices.

MINING

Calumet and Arizona's Investment Status

A Copper for the Bargain Hunter—Is the $8 Dividend Secure?—Has New Cornelia Proved Worth the Price?

By FREDERIC W. NORTON

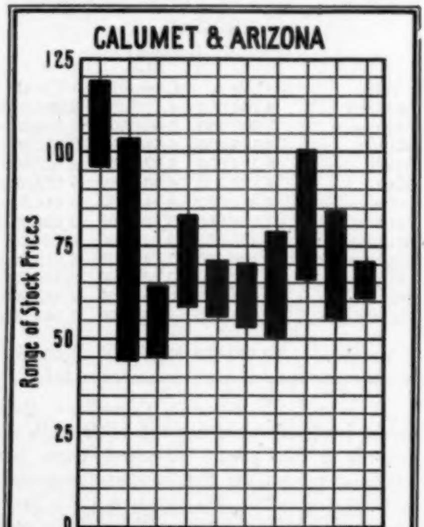
ONE of the most striking undervaluations in the copper group, which has apparently been overlooked by the great majority of investors in their frantic endeavor to unload their "war" stocks and secure a position in the much advertised "peace" issues, is Calumet & Arizona, one of America's greatest copper producers.

Wide-spread pessimistic publicity has given the copper stocks a bad repute among investors. The decline in prices came with a rapidity sufficient to dishearten the staunchest believer in one of the greatest basic industries in the United States.

But this sort of thing can be carried too far. While the immediate outlook in the copper metal market is not particularly encouraging, the time is not far off when the pent-up buying power of domestic and foreign consumers must assert itself. The longer the manufacturer holds off from buying his needed copper supplies the greater will be the demand when the release does come. By that time, which I believe is not more than six months away, wages and material costs will have been lowered quite decidedly. Those companies, of course, which have suffered the least from inflated war costs will be the quickest to regain their normal earning power.

Low Production Costs

Since 1903, two years after incorporation, Calumet & Arizona has not passed a single year without a liberal dividend payment. This remarkable record of payments was possible only because Calumet & Arizona has been *notably a low cost producer*. I believe the results obtained by the company during the five year period immediately preceding the war, the years 1909 to 1913 inclusive, will set at rest any misgivings as to whether C. & A. can weather the readjustment period safely. The average yearly production of copper during this five year interval was about 52,000,000 pounds. This was sold at an average



price of 14.6 cents a pound while the records show the average cost of production to have been 8.1 cents a pound. The company was able, therefore, to earn an average profit of 6.5 cents on each pound of copper produced. Even during those most distressing years, 1910 and 1911, the company sold the production under 13 cents a pound and yet

earned enough to maintain the regular $4 dividend rate.

Just what it has cost the company to produce copper during the last two years is not known. It will be safe to estimate, however, on the basis of past performance, that the net cost of refined copper has not been much over 13 cents a pound. On a production of 62,397,017 lbs. in 1917 the net income was $6,628,501 after crediting profits on a production of 1,257,081 oz. of silver and 37,380 oz. of gold and charging off $2,157,947 for Federal and state taxes and $1,891,205 for depreciation. The latter item might as easily be added to the income for it is merely a bookkeeping entry and remains in the treasury as a reserve against the day when the mines are no longer productive.

TABLE I—MONTHLY PRODUCTION RECORD

(Pounds Copper)

1918	C. & A.	New Cornelia	Total
January	4,748,000	4,136,000	8,884,000
February	2,900,000	3,606,000	6,506,000
March	4,386,000	4,576,000	8,962,000
April	4,374,000	3,728,000	8,102,000
May	4,768,000	4,404,000	9,172,000
June	4,232,000	4,212,000	8,444,000
July	4,214,000	3,900,000	8,114,000
August	4,376,000	3,928,000	8,304,000
September	4,868,000	3,744,000	8,612,000
October	4,712,000	3,644,000	8,356,000
November	3,898,000	3,264,000	7,162,000
December	3,094,000	4,248,000	7,342,000
Total	50,570,000	47,390,000	97,960,000

It is plainly evident, therefore, that costs in 1917 were kept low enough to permit a net profit of more than ten cents a pound on the copper produced. Of course, it is well known that costs were visibly higher in 1918. This was due in part to smaller production, the result chiefly of a shortage of labor. The labor readjustment process attended by lower production will, no doubt, continue for several months. That the company is strongly fortified to carry through this period is largely due to the importance of the company's subsidiary, New Cornelia.

New Cornelia a Good Investment

New Cornelia is probably the lowest cost producer of *refined* copper in the world today. The importance of this as it affects C. & A. is profound and far-reaching. In the face of a storm of protest from the stockholders, Calumet & Arizona purchased $3,100,000 of the $4,000,000 issue of 6% convertible bonds and 918,921 shares of New Cornelia stock at an average price of $1.76 a share and in addition advanced over $3,000,000 for working capital. This action of the Board of Directors has since been fully vindicated and its foresighted prudence amply proved by the spectacular results obtained.

I recall a statement made to me while on a recent trip through Arizona, by a prominent metallurgical engineer connected with the mill construction at New Cornelia. He stated that it should not cost New Cornelia more than six or six and one-half cents a pound to produce refined copper ready for the consumer under normal conditions and that even under the present scale of material and labor prices the cost should not be more than eight and one-half cents a pound.

The New Cornelia product is not touched by fire in its making. It passes through chemical and electrical treatment in the vats to which the ore goes directly it comes from the crushers. The crusher feed is the crude ore as it is steamshoveled from the mountain. The directors estimate that it will take close to fifty years to exhaust the great mountain of carbonate copper ore at Ajo and that after the mountain, which is, in reality, three enormous hills, is leveled there will be a great many years of mining for the sulphide ores lying beneath them. The presence of the sulphide ore has already been determined by means of drilling.

Per Share Valuation

By converting the bonds, Calumet & Arizona has now come to own about 1,228,321 shares of New Cornelia stock. The total issue is only 1,800,000 shares so that C. & A. has an approximate 70 per cent control of the younger company. The present market valuation of this block of New Cornelia is over $19,000,000, *equivalent to about $30 a share on the 642,480 shares of C. & A. stock*

outstanding. Just about one-half of the present market valuation of C. & A. is, therefore, offset by the New Cornelia holdings.

During the past year, New Cornelia paid back to the controlling company approximately the whole of the millions loaned to it and, in addition, commenced paying dividends, all from earnings. The initial distribution was 25 cents a share, made in November, 1918. Calumet & Arizona's share amounted to about $300,000. *Even on* 15 *cent copper, New Cornelia should be able to earn and pay* $1.50 *a year in dividends, which would mean an income for C. & A. of about* $1,800,000, *or nearly* $3 *a share.*

From still another angle, the importance of New Cornelia is striking. I have prepared a comparative production table for 1918. This shows that with its share of New Cornelia's output included, C. & A. produced nearly 85,000,000 lbs. copper last year. The combined production of both companies is close to the 100,000,000 lbs. mark.

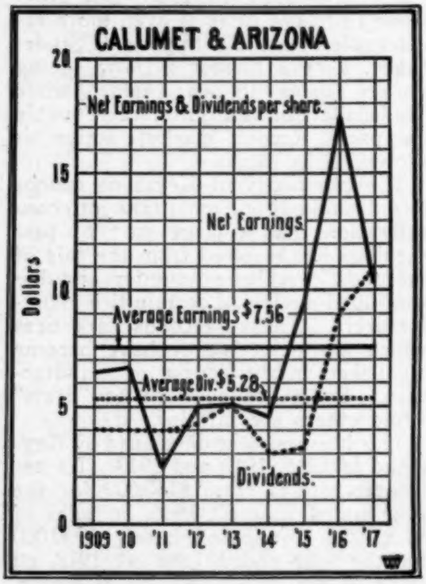
Large Stock Equities

Calumet & Arizona must have at least $12 a share net surplus of cash and quick assets. A year ago it was loaning more than $3,000,000 in cash to its subsidiary. During the year this has been entirely paid back. In addition the company had nearly $4,000,000 in working capital at the beginning of 1918. It is altogether likely, therefore, that the *net working capital at the beginning of* 1919 *is over* $7,700,000, *or about* $12 *a share.* With the value of the New Cornelia holdings carried at less than one-third the market valuation, I estimate that the net assets applicable to the stock amount to nearly $43,000,000, or about $67 a share.

Conclusion

That Calumet & Arizona should sell at $60 a share is inexplicable. The New Cornelia stock owned is worth $30 a share, the net quick assets and cash amount to about $12 a share, which leaves only $18 a share, or $11,500,000, as representing the present value of the Bisbee mining properties and the comparatively new smelting and sulphuric acid plant. There is no question that these properties could be sold to any one of the other big copper companies for two or even three times this amount.

The smelter and acid plant alone must represent an investment of over $5,000,000. And contrary to what many people seem to think, the Bisbee mining properties should be able to turn out 50,000,000 lbs. of copper annually for fifteen or twenty years to come and at a low cost per pound.



Viewed from an investment angle, I believe that those who buy Calumet & Arizona around current prices and hold it, will receive an average of at least 10 per cent annually on their investment, not to mention the profits on market appreciation. A study of price range, earnings and dividend records will go still further in emphasizing the cheapness and desirability of this long established and strongly intrenched mining investment.

UNLISTED SECURITIES

Keystone's Phenomenal Market Action

How Long Will the "Seconds" Business Continue to Show High Earnings?—Contracts for Total Output Taken —Chain Stores Being Developed—Prospects.

By J. H. WESTCOTT, Jr.

KEYSTONE'S spectacular rise to sixty dollars a share reminds one of Studebaker in 1915 when it soared to 195. But Keystone's present price is even more remarkable than the 1915 price of Studebaker, as the former is now selling at six times its par value, while Studebaker did not quite reach double its par. Recent market action is shown in the graph.

The prosperity of Keystone cannot be gainsaid but one must take into consideration that a large part of past earnings has resulted from the sale of "seconds," surplus production and discontinued models of certain tire manufacturers. These "seconds" are tires which are defective or have become blemished in the course of manufacture. Some are as good as "firsts" while others are inferior.

This business was developed by Keystone in 1916, 1917 and 1918. Its net income ranged from $130,000 for the year ended June 30, 1916, on sales of $2,560,298, to approximately $900,000 for the year ended June 30, 1918, on sales of about $7,313,139. However, the exact amount of 1918 profits is not available and it is probable that this estimate of earnings does not include any deductions for income and excess profits taxation. These estimated profits amount to 19.5% of the sales, a most remarkable profit.

Were it assured that the "second" business would continue in the same volume or yield the same profits as formerly, more than a reasonable prosperity for Keystone would result.

Change in Tire Manufacture

But this "second" business will be affected by the great change in the manufacture of tires that began in 1918. The problem that has heretofore faced tire manufacturers and which seems partly responsible for the production of a considerable number of "seconds" was the large number of varieties of tires which had to be manufactured. This necessitated many different moulds and frequent changes and did not aid efficiency production of tires. But standardization of tires has been more or less worked out recently.

A great impetus came about last year through the Pneumatic Technical Division of our Government, composed of some of our leading rubber men.

The Committee concluded that nine standardized non-skid tires could take the place of the 287 varities and that even further elimination is possible. Three more types could be dispensed with by using only oversize tires. Recommendations were made that sixty-one types be dropped at once and that many others be discontinued progressively as the cars requiring them become obsolete.

This "variety" evil became so pronounced that, in many cases, there were several types of tires made to fit the same rim. All but one were recommended to be dropped leaving only one tire to fit the same rim as long as any large quantity of these rims are in use. For passenger cars, it was thought practical to reduce the number of sizes and types of rims from sixty to four. Car manufacturers can aid in this work by standardizing their new models, as tires must be carried for at least four years

of renewals after the cars are made.

Both the manufacuring and sales departments of all the larger tire companies unanimously supported the recommendations of the Committee.

Keystone's Foresight in Entering New Field

There seems to be no question but that the company saw the drift of the "seconds" business and began to fortify its position by taking contracts for the entire production of some small tire makers. In May, 1918, it contracted for the total output of the Gryphon Tire & Rubber Company of New York City on a cost-plus basis, the tires to be known as "Keystones." At that time, the latter company was reported to be producing 200 tires a day working in two shifts of twelve hours each, with expectations that 500 tires would be made within a few weeks and that production would increase to 1,000 tires a day early in 1919.

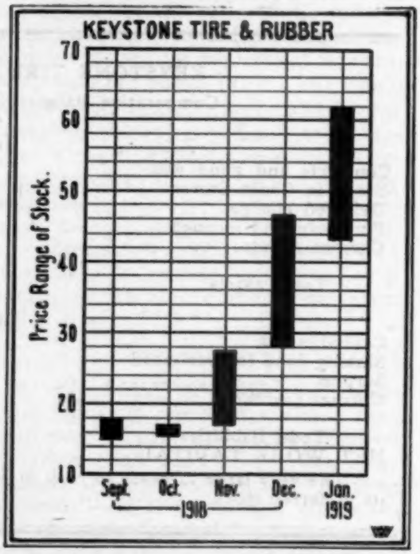
Later in 1918, the entire output of the National Rubber Co. of Pottstown, Pa., was contracted for on the same basis. This Company produces about 2,000 "Speedway" tires a week and hopes to increase this to 3,000 a week.

Keystone has recently closed a contract with Perfection Tire & Rubber Company of Fort Madison, Iowa, on the same cost-plus basis by which it will manufacture "Keystone" tires and ship them direct to Keystone's chain stores in the Middle West. Its capacity is reported to be around 3,000 tires weekly.

Much favorable comment has been published about this cost-plus plan inasmuch as it does not require any investment by Keystone in plant or equipment. While this is true, Keystone pays for the finished product when delivered. The manufacturing companies will not have to carry heavy inventories of finished goods during the dull season but Keystone has taken over this burden. It also must pay a reasonable return on the plant and equipment investment of these companies in addition to some profit, otherwise these factories would perish from lack of nourishment. There is no available data as to the amount of the "plus" in the cost which Keystone pays or the manufacturing efficiency of these producing companies.

Chain Store Business

Keystone has developed a chain store business and thereby secured an extensive selling organization. On June 30, 1917, twenty-one such stores had been started. The number has been increased to around eighty and it is expected that this will be further increased during this year. The larger percentage of its sales are to these chain stores, other sales being made direct to consumers by the New York stores and also to other retailers.



Chain stores are not new in the tire industry. Several large manufacturers have established them but they are known as branch houses. They are undoubtedly prosperous when handling a tire that is well known and extensively advertised. The new idea of Keystone was to get men to run these stores who would provide from 30 to 70% of the investment required and take a corresponding interest.

While chain stores have been successful in other lines, one might well question the remarkable success hoped for by purchasers of Keystone stock at around current levels. It is difficult to forecast exactly how successful they will be as their merchandise will consist principally of Keystone tires, seconds and the tires of other manufacturers controlled by Keystone. An important question to consider when forecasting Keystone's success is, "Has Keystone or the chain stores sufficient free capital to put over an expensive and extensive advertising campaign for these tires?" Keystone tires are not the highest product of the tire industry, but it is natural to assume that there will be a substantial demand for the cheaper tires.

These chain stores do not require large capital investment as can be seen by the Keystone's valuation of its investment in them shown by the comparative balance sheet in the table. This investment was carried at a valuation of $477,000 on June 30, 1916, raised to $522,400 on June 30, 1917, but reduced to $72,135 on April 30, 1918. The last figures seem to be more in line with the actual amount of money invested by Keystone even after the number of such stores had about doubled over those of June 30, 1917.

But these stores require large inventories. Grocery stores can be stocked up for a few thousand dollars, but $10,000 worth of tires would not attract much attention in a fair sized store. These inventories will have to be carried by Keystone in the dull season in the form of notes and accounts receivable until it can secure chain store men with means sufficient to carry to pay cash for the tires.

KEYSTONE TIRE & RUBBER COMPANY

Comparative Balance Sheet—Net Working Capital

	June 30, 1916	June 30, 1917	April 30, 1918
Assets			
Contracts and good will	$477,000	$393,329	$570,215
Stock in Chain Stores	......	522,400	72,135
Deferred charges	......	5,329	8,044
Furniture and fixtures	3,176	12,809	17,288
Current Assets	$202,022	$1,210,888	$1,630,663
Total assets	$682,198	$2,144,755	$2,298,345
Liabilities			
Capital stock	$500,000	$1,500,000	$1,500,000
Sinking fund for preferred	......	6,250	
Surplus	84,564	453,551	588,712
Current Liabilities	$97,634	$184,954	$209,633
Total liabilities	$682,198	$2,144,755	$2,298,345
NET WORK CAPITAL	104,388	1,025,934	1,421,030

The very large increase in cash in June, 1917, resulted from the sale of $500,000 of its preferred stock.

Financial Position

Keystone's financial position has been somewhat enviable as will be seen in the table. Current assets were eight times current liabilities on April 30, 1918. It is to be expected that this percentage has been considerably reduced at this time, owing to the fact that Keystone is carrying either heavy inventories or large receivables with a corresponding increase in bills payable.

The valuation of "Contracts and Good Will," has been reduced substantially while accounts and notes receivable have increased to an extent where they reflect the recent very rapid growth of the company. Of the $1,194,903 of receivables and trade ac-

ceptances outstanding on April 30, 1918, all but \$200,000 represented money due from the chain stores. Outstanding common has also increased to \$1,724,000 through the payment of a 15% stock dividend on Dec. 1, 1918.

Prospects

It would seem that the prospects of Keystone, necessary to warrant the present market price, depend not only on the ability of the chain stores to sell the tires at a large profit to the parent company but somewhat upon the cost of production by Gryphon, National and Perfection. Up to date, nothing has been published which would warrant the belief that they can manufacture tires at a less cost than the large manufacturers.

Another important matter to consider is the ability of these companies to produce, at a low cost, a tire which will insure a growing business. As nothing much has been said about any very large demand for the tires heretofore manufactured by Gryphon and Perfection, one might well conclude that these companies had not been as successful in the past as some other tire manufacturers. If this were not so, would they have entered into a contract with Keystone for the sale of their output on a cost-plus basis which probably calls for only a small percentage of profit to the manufacturing companies?

The matter of inventories must also be considered. While Keystone's inventories are not burdensome, yet it is carrying large receivables of its chain stores. These are undoubtedly represented by the inventories of such stores. Such chain store receivables amounted to around \$900,000 on April 30, 1918, and approximately \$1,100,000 on August 31, 1918, at a time when the chain stores should have sold a substantial part of their product. At the present time, when sales have decreased owing to the seasonable nature of this business, these receivables would naturally be substantially higher and will probably continue to increase until the active selling season begins.

This would seem to necessitate a further increase in bills payable. As Keystone pays for the delivered output of the factories, it would seem that by April 1, 1919, it ought to be pretty well stocked up with tires and receivables and perhaps payables as well.

Assuming that this will be the case, it would seem well to inquire into the nature of the reported profits of Keystone for the past several months. A large percentage of profit could be shown through sales on credit to chain stores and yet the substantial success of the business would depend upon the chain stores selling the tires at a profit, thus changing paper profits into cash.

Just what demand there will be for Keystone "firsts" is difficult to determine without knowing whether Keystone can carry on an expensive selling campaign to stimulate sales. The company has been very successful in selling "seconds" but it would seem that its success in selling "firsts" is, to a certain degree yet to be demonstrated.

Conclusion

In considering the value of Keystone stock, it must be realized that some part of past prosperity resulted from war conditions. Some car owners have tried to economize by buying "seconds." If the company could secure enough "seconds" at attractive prices to utilize its present selling organization, a considerable success would seem assured.

But based on a market price of sixty dollars a share, the valuation of its outstanding stock would be over \$10,000,000. Even if net earnings, after taxes, for the next few years should be \$1,000,000 a year, they would amount to only 10% on the present market valuation. This appears to be high compared with rubber companies like Goodrich, Goodyear and U. S. Rubber. Long pull possibilities do not appear to be bright enough to make the purchase of its stock attractive at the present price. Holders at lower levels should seriously consider the advisability of taking their profits before they disappear.

TOPICS FOR TRADERS

Market Movements

With Special Reference to the Relation Between the Fixed and Floating Supply of Stocks

By FREDERIC DREW BOND

The Economic Character of the Floating Supply

THE importance of the factor of the floating supply of stocks in the study of market movements has been adverted to in the preceding chapter. There are certain peculiar economic points which should be emphasized in this connection.

The old political economy had almost nothing to say about stocks and bonds except to notice their general legal and business character. The appearance, a good many years ago, of the late Charles Dow's theory of market movements was the first attempt to deal with the matter seriously. These famous essays, however, were of a rather elementary character. Later on, Emory's work on the "Stock and Produce Exchanges of the United States" deserves mention. But the scientific study of the subject, always with a view to practical results, may be said to have begun with the old *Ticker* magazine, now THE MAGAZINE OF WALL STREET, to which many experts in America and England contributed at various times and whose volumes form a repository of reference to those interested in the fluctuations of the stock market. Various books have also been written on the subject by college professors and students and heads of "institutes," all of which are negligible from the practical point of view. This factor of the relations between the fixed and floating supply of stocks can easily be shown to be of great importance. It is, in fact, hard to account for its having been so much neglected in connection with studies of the technical situation.

Stocks Are Not Economic "Goods"

To make this matter clear we must first recall a few elementary principles of economics. It is generally agreed that the lowest price of an article is limited by its cost of production, although its current price may be largely influenced by the factors of effective supply and demand. But stocks, it should be remembered, are not "goods" in the economic sense of the word; neither are they services. What then exactly are stocks? We might say that they are ownerships, for the old expression "stock" meant simply capital. It is not correct to say that stock ***represents*** ownership. On the contrary, it *is* ownership and it ***represents*** the property. The words "stock" and "ownership" are thus equivalent, and the former expression seems odd in this connection merely because unusual.

Now, ownership is a definite human relation, not a legal contract, but a general agreement as to rights and duties in connection with a specific property. Thus, then, in asking what is the price of a stock, we are really asking what, at a given time and place, is the monetary value of a certain agreement made respecting a certain property. This agreement may imply a payment of profits in the shape of dividends under certain more or less rigid provisions and circumstances.

From these facts flow several other facts. Since stocks are not goods or services, there is no cost of production in connection with them. (We need not notice the possible, negligible exceptions of promoter's fees, engraving of certificates, etc.) Nobody asks what is the cost of production in borrowing a thousand dollars, for the question would be meaningless. The same remarks which

apply to a corporation bond apply largely to corporation stock.

But, just as cost of production is, in a general way, the lower limit of the sale-price of goods, so the dividend return or its likelihood, and the value of the stock for the purpose of controlling the company, constitute the lower limit of value of stocks. A stock which could never receive a dividend and which had no vote would be literally worthless. In fact, those with old mining certificates in their ownership can usually testify to the truth of this remark from their personal experience. There are, in fact, two books of the names of such stocks published by a gentleman long in the Produce Exchange Building.

There is a third point to consider. Since stocks are neither "goods" nor services and since they have no "cost of production" in the technical economic meaning of the expression, it is evident that they are not bought with the same intentions as are goods or services. For there is one sweepingly true fact about goods and services—they are bought by the last purchaser to be consumed, or used up. The only exception to this is in the case of curiosities and rarities. But stocks are not bought for consumption. Although the seller of stocks sells for gain (aside from necessity), it is quite evident that, whereas commercial buyers may buy for gain or because of needs, the financial buyer buys only for gain, whether that may arise from the receipt of dividends or from price changes.

Now, with the elimination of the factors of goods and of services, of cost of production and of needs, and with the inclusion of absolute limitation in amount, we can see at once that the element of supply and demand, which in commerce and industry is merely the governor of the economic machinery, becomes, if the simile be allowed, the fly wheel in finance. In other words, the supply and demand becomes a dominating influence—sometimes *the* dominating influence.

Again, goods and services differ in this also from stocks: More goods and services can always be, sooner or later, brought to market (if we except the situation created by famines and other abnormal conditions), but with stocks the supply is not only limited but is fixed, precise and well known.

Stocks Have No "Marginal Utility"

Is there, then, any recognized factor in political economy to which stocks do conform as to a limit? Yes, there is; but a few words of explanation must be premised. Values of goods depend on the labor or "cost of production" needed to produce the utility embodied in the goods. But to an owner, articles of the same sort have not each the same utility, if he owns several. One winter coat is an indispensable utility, but each additional coat becomes less and less useful. To a man with many overcoats, the utility of any one for actual covering is equivalent to the *least utility* of any, because if one is lost, there is another on hand. (This least utility is called marginal utility.)

When goods are practically unlimited, as air, no separate portion has any utility at all, because there is always an ample supply left free. On the other hand to a man with only one coat, this has very high utility, which is called the *final utility*.

Now, on the other hand, since all stock either produces income or provides a voice in the management, and since the former utility to any investor does not lessen or increase per share with a variance in the number of shares he owns, the *least* and the *final* utility of a stock are one and the same—if we disregard the question of control, which very rarely arises in considering stock prices.

In other words, if all of Mr. Rockefeller's holdings of any stock were to be taken from him, share by share, the last share would have no more economic utility to him than had the first. Also, if you add to an investor's one share of Pennsylvania, 999 more shares, you have not lessened the utility of the first. In both of these instances the utility is income, and therefore quite different from goods which are consumable in themselves but are without application to the procurement of other goods.

All this may sound a little abstract but it will help to clarify our ideas of the whole matter. Conceive the entire capitalization of a company to be for sale

by that company, at a fixed price no matter how many shares are sold. If, now, shares were successively cancelled one at a time by the company, the value of each share would rise higher and higher as it represented a larger and larger proportion of the company's property.

But if instead of being cancelled, shares of stock were bought successively by investors, as is generally the case in the promotion of a company, this stock would *pro tem.* be off the market and while it would still draw its share of profits, *all the control elements and change of price elements would be concentrated in what was not so bought by investors.* In other words, *it is the transactions in the speculative or floating supply of a stock which ordinarily determine its price,* no matter whether these transactions be based on accurately foreseen facts or on misconceptions.

Importance of Floating Supply

Let us now try and show how tremendously effective is this floating supply. On the New York Stock Exchange the percent of speculative dealings in the most active stocks has been variously estimated as running from 95% to over 99%. It is certainly not below the former figure in the sort of stocks referred to.

It may be worth while briefly to indicate approximately how this result may be arrived at, without going into cumbersome calculations. In general, the result is attained by comparing the registry figures of stocks with the turn-over on the exchange. Many companies now publish the number of their stockholders from year to year, while by dividing the whole capitalization by the number of stockholders we have the average amount of shares to each holder. Now, as investment stock is usually registered while speculative stock is generally registered only when the shares pay dividends and only for the purposes of convenience, we have a rough and ready way of determining an approximation to the facts. Calculations worked out this way confirm the correctness of the theory, for they show that an investment stock like Pennsylvania may have a speculative percent of dealings as low as 85%, while in Reading the percent has at times been higher than 99%. (The full calculations for a number of stocks were worked out in the first chapter of the writer's "Stock Prices.")

It was noted above, however, that there is a sort of limiting value to a stock and that this limiting value depends on its investment worth.

Thus we have the combination of facts that the movements of active stocks depend primarily on speculation while the limits within which speculation ranges are, for the most part, based on investment factors. In other words, stocks do not readily and in the absence of very unusual situation, stay long very much above or very much below investment values as these are judged by the mass of shrewd business men. *It is the change in the investment limits in a specific stock which is the basis of the great changes in its price.*

Because active stocks are moved principally by speculative interests, whether combined or disjoined, it is a mistake to think that they are ordinarily based on no sound economic reasons. The contrary is exactly the fact, and when the reasons are not sound, they at least must appear so at the moment if the movement is to be maintained.

The differences in amount between floating and investment supply, the way each is held, and various other factors will be seen to have a highly dominating influence, and usually *the* specific dominance, in the price changes of stocks; but always these changes bear a relation to the investment and control value, the former factor as a rule being the only one in evidence.

The most obvious examples of the influence of the floating supply appear in "corners," and three of these will be analyzed in a later paper. But it seems best before doing this to point out the general characteristics of changes in prices and to note some of the salient features of bull and bear movements and how they are strongly differentiated in the character of their price swings.

(*To be continued.*)

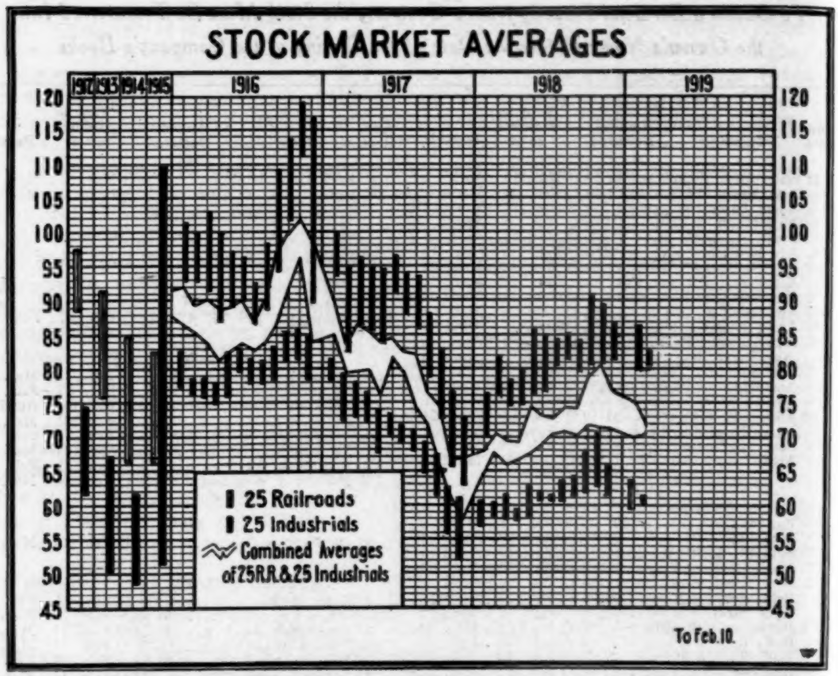
IMPORTANT DIVIDEND ANNOUNCEMENTS

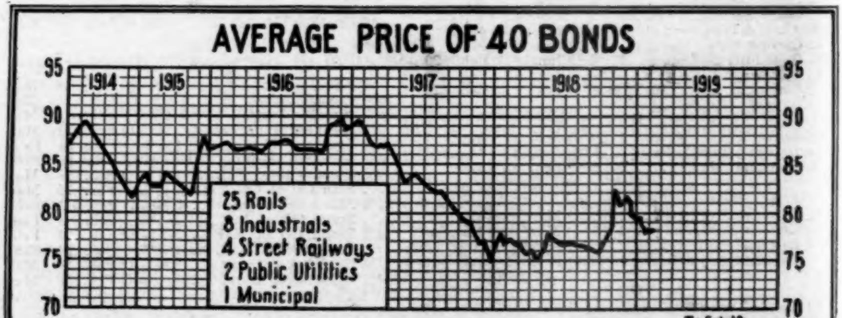
To Obtain a Dividend Directly from a Company the Stock Must Be Transferred Into the Owner's Name Before the Date of the Closing of the Company's Books

Ann. Rate	Name	Amount Declared	Paid to Holders as of	Payable
	A			
$6	Amer Beet Sugar, p.	$1.50 Q	Mar. 15	April 1
4%	Am Cotton Oil, c....	1 % Q	Feb. 15	Mar. 1
8%	Amer Drug Syndicate	4 % S	Jan. 31	Mar. 15
7%	Amer Hide & L, p..	1¾% Q	Mar. 15	April 1
7%	Amer. Linseed, p...	1¾% Q	Mar. 15	April 1
7%	Am Radiator, p.....	1¾% Q	Feb. 6	Feb. 15
12%	Am Radiator, c.....	3 % Q	Mar. 22	Mar. 31
....	Am Radiator, c, ext, xx	4 %	Mar. 22	Mar. 31
7%	Am Smelt & Ref, p.	1¾% Q	Feb. 11	Mar. 1
4%	Am Smelt & Ref, c..	1 % Q	Feb. 26	Mar. 5
7%	Amer Sugar Refin, p	1¾% Q	Mar. 1	April 2
7%	Amer Sugar Refin, c	1¾% Q	Mar. 1	April 2
....	Am Sugar Ref, c ext	¾%	Mar. 1	April 2
7%	Am Sumatra Tob, c.	3½% S	Feb. 14	Mar. 1
6%	Am Tobacco, p.....	1½% Q	Feb. 15	April 1
20%	Am Tobacco, c......	5 % Q	Feb. 15	Mar. 1
$6	Anaconda Copper ..	$1.50 Q	Jan. 18	Feb. 24
6%	Assoc Drygoods, 1st p	1½% Q	Feb. 8	Mar. 1
7%	Assoc Drygoods, 2d p	1¾% Q	Feb. 8	Mar. 1
6%	Atch, Top & Santa Fe, c	1½ Q	Jan. 31	Mar. 1
	B			
4%	Balt & Ohio, p......	2 % S	Jan. 28	Mar. 1
4%	Balt & Ohio, c......	2 % S	Jan. 28	Mar. 1
8%	Beth Steel, 8% p....	2 % Q	Mar. 12	April 1
7%	Beth Steel, 7% p....	1¾% Q	Mar. 12	April 1
5%	Beth Steel, c A.....	1¼% Q	Mar. 12	April 1
5%	Beth Steel, c B.....	1¼% Q	Mar. 12	April 1
....	Beth Steel, c A ext..	1¼%	Mar. 12	April 1
....	Beth Steel, c B ext..	1¼%	Mar. 12	April 1
6%	Bordens Cond Milk, p	1½% Q	Mar. 1	Mar. 15
6%	Buff, Roch & Pitts, p	3 % S	Feb. 13	Feb. 15
4%	Buff, Roch & Pitts, c	2 % S	Feb. 13	Feb. 15
$8	Buckeye Pipe Line..	$2 Q	Feb. 21	Mar. 15
	C			
7%	Chic, St P, M & O, p	3½% S	Feb. 1	Feb. 20
5%	Chic, St P, M & O, c	2½% S	Feb. 1	Feb. 20
6%	Cities Service, p....	½% M	Feb. 15	Mar. 1
6%	Cities Service, c....	½% M	Feb. 15	Mar. 1
....	Cities Service, c ext..e	1 %	Feb. 15	Mar. 1
$3.50	Cleve & Pitts, reg gtd	87½c Q	Feb. 10	Mar. 1
$2	Cleve & Pitts, spec gtd	50c Q	Feb. 10	Mar. 1
8%	Colo Fuel & Iron, p.	2 % Q	Jan. 31	Feb. 20
$3	Colo Fuel & Iron, c.	75c Q	Jan 31	Feb. 20
....	Compama Swift Int'l	$1.20	Jan. 11	Feb. 20
	D			
7%	Deere & Co., p.....	1¾% Q	Feb. 15	Mar. 1
$8	Detroit United Ry..	$2 Q	Feb. 13	Mar. 1
8%	Diamond Match	2 % Q	Feb. 28	Mar. 15
	E			
7%	Eastern Steel, 1st p..	1¾% Q	Mar. 1	Mar. 15
7%	Eastern Steel, 2nd p..	1¾% Q	Mar. 1	Mar. 15
10%	Eastern Steel, c......	2½% Q	April 1	April 15
4%	Eisenlohr (O) & Bros, c	1 % Q	Feb. 1	Feb. 15
	G			
$4	Gaston, Wms & Wigm	$1 Q	Feb. 1	Feb. 15
7%	General Cigar, p....	1¾% Q	Feb. 24	Mar. 1
7%	Goodrich (B F), p..	1¾% Q	....	April 1
7%	Goodrich (B F), p..	1¾% Q	....	July 1
4%	Goodrich (B F), c..	1 % Q	....	May 15
$6	Greene-Cananea	$1.50 Q	Feb. 7	Feb. 24
	H			
6%	Harb-Walk Refrac, c.	1½% Q	Feb. 19	Mar. 1
4%	Hart, Sch & Marx, c.	1 % Q	Feb. 18	Feb. 28
5%	Hartman Corp	1¼% Q	Feb. 20	Mar. 1
$6	Homestake Mining ..	50c M	Feb. 20	Feb. 25
	I			
7%	Illinois Central	1¾% Q	Feb. 3	Mar. 1
7%	Internat'l Harvester, p	1¾% Q	Feb. 8	Mar. 1
$2	Internat'l Nickel, c..	50c Q	Feb. 13	Mar. 1

Ann. Rate	Name	Amount Declared	Paid to Holders as of	Payable
	K			
$1	Kerr Lake Mining...	25c Q	Mar. 1	Mar. 15
8%	Kings Co El Tr & Pr.	2 % Q	Feb. 14	Mar. 1
	L			
$4	Lehigh Coal & Nav..	$1 Q	Jan. 31	Feb. 28
	M			
$1.50	Monongah Val Tr, p	37½c Q	Feb. 1	Feb. 20
	N			
6%	National Acme	1½% Q	Feb. 15	Mar. 1
7%	National Biscuit, p..	1¾% Q	Feb. 15	Feb. 28
7%	National Biscuit, c..	1¾% Q	Mar. 31	April 15
7%	National Lead, p....	1¾% Q	Feb. 21	Mar. 15
6%	Niles-Bement-Pond, p	1½% Q	Feb. 6	Feb. 20
10%	Niles-Bement-Pond, c	2½% Q	Mar. 1	Mar. 20
4%	Norfolk & Western, p	1 % Q	Jan. 31	Feb. 19
7%	Norfolk & Western, c	1¾% Q	Feb. 28	Mar. 19
	O			
$5	Ohio Cities Gas, c...	$1.25 Q	Feb. 15	Mar. 1
	P			
$3	Penn R R..........	75c Q	Feb. 1	Feb. 28
$2.50	Phila Co, old p.....	$1.25 S	Feb. 10	Mar. 1
$7	Pittsburgh Steel, p..	$1.75 Q	Feb. 15	Mar. 1
6%	Pitts & West Va, p..	1½% Q	Feb. 13	Mar. 1
$7	Pressed Steel Car, p	$1.75 Q	Feb. 4	Feb. 25
$8	Pressed Steel Car, c	$2 Q	Feb. 11	Mar. 4
	Q			
6%	Quaker Oats, p.....	1½% Q	Feb. 1	Feb. 28
	R			
$2	Reading Co, 1st p...	50c Q	Feb. 25	Mar. 13
	S			
7%	Savage Arms, 1st p..	1¾ Q	Feb. 26	Mar. 15
6%	Savage Arms, 2d p.	1½% Q	Feb. 26	Mar. 15
6%	Savage Arms, c....	1½% Q	Feb. 26	Mar. 15
$20	Southern Pipe Lines.	$5 Q	Feb. 15	Mar. 1
6%	Standard Milling, p.	1½% Q	Feb. 18	Feb. 28
8%	Standard Milling, c.	2 % Q	Feb. 18	Feb. 28
10%	Stand Oil of Cal....	2½% Q	Feb. 15	Mar. 15
....	Stan Oil of Cal, ext xx	2½%	Feb. 15	Mar. 15
12%	Stand Oil of Ind....	3 % Q	Feb. 3	Feb. 28
....	Stand Oil of Ind, ext	3 %	Feb. 3	Feb. 28
12%	Stand Oil of Kan...	3 % Q	Feb. 14	Feb. 28
....	Stand Oil of Kan, ext	3 %	Feb. 14	Feb. 28
7%	Studebaker Corp, p..	1¾% Q	Feb. 20	Mar. 1
4%	Studebaker Corp, c..	1 % Q	Feb. 20	Mar. 1
	U			
7%	United Cig S of Am, p	1¾% Q	Feb. 28	Mar. 15
6%	United Drug, 2nd p.	1½% Q	Feb. 15	Mar. 1
....	U. S. Express......y	$1.25	Feb. 1	Feb. 21
7%	U S Steel, p........	1¾% Q	Feb. 1	Feb. 27
5%	U S Steel, c........	1¼% Q	Feb. 28	Mar 29
....	U S Steel, c ext....	1 %	Feb 28	Mar. 29
	W			
8%	Woolworth (F W), c.	2 % Q	Feb. 1	Mar. 1

ext—Extra dividend.
e—Payable in common stock.
xx—Payable in Liberty Bonds.
y—Partial distribution of assets in liquidation.


STOCK MARKET AVERAGES
1912 1913 1914 1915
1916
1917
1918
1919
120 115 110 105 100 95 90 85 80 75 70 65 60 55 50 45
25 Railroads
25 Industrials
Combined Averages of 25 R.R. & 25 Industrials
To Feb.10.


AVERAGE PRICE OF 40 BONDS
1914
1915
1916
1917
1918
1919
95 90 85 80 75 70
25 Rails
8 Industrials
4 Street Railways
2 Public Utilities
1 Municipal
To Feb.10.

Financial News and Comment

Note.—The Railroad and Industrial Digest, Notes on Public Utilities, Oil Notes and Mining Digest, contain condensations of the latest news regarding the companies mentioned. The items are not to be considered official unless so stated. Neither THE MAGAZINE OF WALL STREET nor the authorities for the various items guarantee them, but they are selected with the utmost care, and only from sources which we have every reason to believe are accurate and trustworthy. Investment commitments should not be made without further corroboration.—Editor.

RAILROADS

Canadian Pacific Earnings Estimate

Enough figures are available to make preliminary estimates of earnings for 1918. Gross earnings for the full year constituted a new high record, at $157,537,698, showing an increase of $5,148,363, or 3.4% over 1917. Working expenses rose $17,191,993, or 16.2%, the net declining $12,043,630, or 25.9%.

With net $34,502,387, balance available for ordinary dividends would be $20,545,968, against requirements of $18,200,000 for the 7% payment. The company's final surplus over all dividends should be between $5,000,000 and $6,000,000.

Rock Island's Income for 1918

An estimate of income for 1918 has been furnished bankers by the comptroller. The estimate is based upon the average net operating income for the last three years, and the surplus for dividends is estimated at $5,317,147. The standard return, based upon minimum rental by the Government, is placed at $15,925,118, and after taxes at $14,794,147. From the latter interest on debt to the amount of $9,477,000 is deducted, leaving the above surplus.

After deducting the amount of dividends on the two classes of preferred stock, the remainder is equivalent to 2.31% on the $74,359,700 common stock. The company has application pending with the Railroad Administration for an additional allowance of several million dollars. The management expects that at least a part of the additional compensation claimed will be allowed.

Rock Island-Colorado Southern Controversy Settled

In 1906 and in 1914 the Chicago, Rock Island & Pacific Railway entered into contracts with the Colorado & Southern whereby the former agreed to purchase from the latter a one-half interest in the Trinity & Brazos Valley Railway. After a period of long, drawn-out litigation a settlement has now been agreed upon. In officially announcing this fact the following statement was made:

"The Trinity & Brazos Valley Railway line, extending from Fort Worth and Dallas to Houston and Galveston, was constructed for the purpose of affording both the Rock Island and the Colorado & Southern an outlet from their terminals in north Texas to the Gulf ports. The Rock Island receiver in 1915 disaffirmed these contracts and the Colorado & Southern brought suit in the Supreme Court of New York to enforce them.

"A settlement has been agreed upon whereby the Colorado & Southern will accept in cash 60% of the amount due on the contract, which, under the final decree in the Rock Island receivership, would be payable in full in 6% preferred stock at par, such as was paid to all other general creditors of the Rock Island.

"This will involve the payment of some $4,000,000 and the Rock Island will own outright a half interest in the Trinity & Brazos Valley Railway, and will have a permanent outlet to the Gulf ports, which will be of great value in the event of the return of the roads to private operation. The total cost of the Trinity & Brazos Valley road is now in excess of $11,000,000.

Great Northern Plans New Construction

About $325,000 will be expended in the Spokane division, laying 30 miles of standard rails and making other improvements. At Hillyard, Wash., yard enlargements will be made at a further cost of $150,000, including addition of ten miles of tracks. The company has under construction a block signal system between Hillyard and Leavensworth, costing about $200,000. Plans are under way for block signal work in the Cascade division, between Skykomish and Dalta, to cost $166,000.

Illinois Central to Issue Bonds

Permission has been granted by the Illinois Public Utilities Commission for the issuance of $20,000,000 5½% procured gold bonds and $10,640,000 refunding mortgage 4% gold bonds to the Ill. Central R. R. The purpose of the new financing is to care for maturing obligation and capital requirements.

Owing to a technical objection made by New York bondholders of the company the Illinois Public Service Commission has been asked to revise the application. This will be a minor change, however, and will not defer the new financing.

Traffic on New Haven Shows Increase

The advance in fare on the Boston elevated to eight cents for a ride is named as one of the chief causes for the increase in traffic on the New Haven suburban lines, commuters finding it cheaper to use the steam roads.

It was not until the Boston "El" raised its fares from 7 to 8 cents that the increase in traffic on the railroads was noticeable. Most of this desertion, however, was noticeable on passenger business to those sections south and west of Boston served by the New Haven Railroad. The Boston & Albany picked up a small portion of new commuters, and some additional riding was noticeable on the Boston & Maine, particularly on the Medford and Malden lines. But in no instance was the increase as large as that shown by the New Haven.

Norfolk & Western 6% Bonds Well Taken

Although no underwriting syndicate was formed to float the new issue of 6% ten years convertible bonds, subscriptions are already sufficient to insure the taking of issue. Stockholders were alloted 12½% at par, making the amount of the entire issue $17,900,000. Forty per cent of the subscription was payable January 25, but a large number of stockholders have paid in full for the bonds.

Penn. Stockholders to Vote on Expansion

Preparations are being made to provide for expansion without embarrassment. At the annual meeting the middle of next month stockholders will be asked to authorize an increase of $75,000,000 in the company's indebtedness, to be made at such time and in such manner as may be prescribed by the directors.

Through unissued balances remaining from previous authorizations, the directors at present are empowered to increase the indebtedness by approximately $46,000,000. The additional $75,000,000 will bring the total authorization to $121,000,000. The whole amount will not be immediately necessary, but the authorization is required so that the company may be in a position to meet future needs promptly and adequately.

Seaboard Will Pay Interest on Adjustment 5s

Interest on the adjustment 5% bonds of 1914 can be paid only when earned, but from the time of their issuance interest has been regularly earned and paid. The Government contract has not yet been signed, but in view of the fact that interest on the adjustment income bonds was earned regularly during the three years ended June 30, 1917, the contract will probably provide for sufficient compensation to pay interest on all outstanding bonds during Government control. Announcement has been made therefore that the semi-annual interest of 2½% would be paid.

For the year ended December 31, 1918, gross earnings totaled $38,923,106, against $30,345,146 in 1917. Net after taxes, however, decreased from $7,237,881 to $4,096,959, and operating income amounted only to $3,636,725, against $6,821,327 the previous year.

Chicago Syndicate Takes Southern's Note Issue

Considerable surprise was expressed in the financial circles when it was learned that a Chicago syndicate had purchased an issue of $25,000,000 three-year 6% notes. Heretofore the company's financing has usually been attended to by eastern bankers headed by J. P. Morgan & Co. The eastern firms made a bid to the Director of Finance of the R. R. Administration, but it is said their bid was about 1% below that of the Chicago syndicate.

A public offering of the notes is expected very shortly, and Halsey, Stuart & Co., the syndicate heads, are expected to offer them to the public at about 98¾ and interest.

Advance-Rumely's Initial Dividend

While the initial dividend on the preferred stock is not specified as a quarterly rate, this may be assumed, in view of the provisions under which the company was organized. This provided for dividends on the $12,500,000 preferred stock to become cumulative at the rate of 6% per annum after January 1, 1919. The company succeeds Rumely Company, which went into receivership, and whose plants and assets were purchased at a foreclosure sale on December 9, 1915.

American Druggists' Syndicate Sales Tripled

Daily average sales have been tripled since 1910. The gross sales in November and December were more than $5,000 a day greater than in the same two months of any previous year.

American International's New Income

Inauguration of dividends at the rate of $1 per share by the New York Shipbuilding Corp. has opened up a new source of income for this company, which, with several affiliated concerns, controls the N. Y. Shipbuilding Corp.

To date 14 ships have been launched from the Hog Island plant, with 50 more now on the ways. The contract with the Government calls for a total of 180 vessels.

American Sugar's Cash Position Strong

Strong position in cash suggested that the management may deem it wise to increase investments in affiliated branches of the sugar industry. On December 31, 1917, its cash on hand amounted to $40,493,252, while in this "investment general" account were included market securities valued at $7,912,925.

Stocks held in various beet sugar companies are regarded as investments. No activity is shown by the management in these companies. It owns 36,496 shares of common, and 51,752 shares of preferred stock of Great Western Sugar Co., the largest beet sugar company in America.

Atlantic Gulf Not Affected By Rate Cut

Reduction of 66 2-3% in shipping rates between Atlantic and Gulf ports and European ports will not be effective on A. G. W., whose business is entirely coastwise. There has been no reduction in coastwise rates. As a matter of fact, shipping authorities state that coastwise rates have never been as high proportionately as transatlantic rates; hence if coastwise rates are revised downward the cut will not be relatively as severe.

The new ocean rates are expected greatly to stimulate export business, as former tariffs were so high as to prohibit the shipment of a vast amount of material.

Chandler Motor Turning Out 40 Cars Daily

Having completed according to Government wishes about 40% of its original contract for 2,000 ten-ton artillery tractors the company is now swinging rapidly back to its normal basis of operations.

From April to October in 1918, it gave every ounce of energy to war work, and by the signing of the armistice had achieved a daily output of ten tractors a day, to the surprise and satisfaction of the Government.

The Cleveland factories are now turning out forty passenger cars per day, the schedule that will probably prevail until April, when the big production period sets in.

Distillers Securities Converting Plants to Manufacture Sugar

Announcement has been made that four of the plants are being converted to manufacture sugar from corn under a new process. There are still six plants which will turn out alcohol for medical and commercial use at the rate of 250,000,000 gallons per annum.

General Chemical Wins Suit

Supreme Court Justice Young has handed down a decision in favor of the company in the certiorari proceedings brought against the assessors of Phillipstown, Putnam county. The assessment amounted to $250,000 for personal taxes on the capital stock. Justice Young ordered the assessment cancelled.

International Nickel Reduces Dividend by One-Half

As was expected, the dividend declared was at the rate of $2 per annum, as compared to the previous declaration of $1 quarterly.

The reduction is entirely due to the enormous taxes which the company has to pay both in the United States and in Canada, along with the fact that the price of nickel metal was raised only 10 cents a pound during the war, while operating expenses of all kinds showed big increases.

Lee Rubber & Tire Sales in January Increased 30% Over 1918

January sales ran 30% ahead of those of January, 1918. If that gain in sales can be continued, 1919 profits should score a proportionately larger gain as margin of profit is expected to run fully as high, while larger volume, of course, reduces overhead expenses.

The shares have been continually moving upward upon the news of this increase in sales.

National Lead's Business Outlook Good

Recent buying of the company's securities was for interests closely identified with the large paint and color manufacturers. These interests, according to the report, think very highly of the future, on the ground that it can no longer be regarded in any sense as being wholly dependent on its lead-corroding business. The company, besides its lead-corroding business, which is large in itself, manufactures lead pipe, sheet lead, orange mineral lead, and many other products in the production of which pig lead comes out in the manufacture of these articles as a finished product in one or two days. The manufacture of these products is expected greatly to benefit by the building boom, when the reconstruction period begins.

Studebaker Shares Are Well Distributed

A. R. Erskine, president, has been quoted as saying:

"Out of 2,836 common stockholders of the company, 1,843, or 65%, own 50 shares or less, while 251, or 9%, own from 51 to 100 shares. Thus, 2,094, or 74% of stockholders, own 100 shares or less, and only 742 individuals, or 26%, own more than 100 shares of preferred stock.

"The fact is that the largest holdings of stocks owned by any individual or interest is less than 6% of outstanding capital stock."

Outlook for United Alloy Steel Good

For the year ended Dec. 31, 1918, earnings were reported to have equalled $6 a share over its dividend and tax requirements, the gross earnings being about the same as in 1917, and the difference in the amount left for surplus being less because of the increase in taxes.

Dividends are assured for the next three months. The product is in special demand by automobile builders, and not for general consumption.

There is no question but that the demand for automobile steel will be great once the automobile industry can get into its stride again. The next few months are expected to be the dullest.

U. S. Cast Iron Pipe & Foundry's Outlook Rather Quiet—Annual Report Forecast

At present a rather dull period is being experienced. However, one of the first to feel the effect of improving conditions will be this company, for if public improvements are started there should be a strong demand for cast iron pipe. A large amount of such work was held up by the war, and should come into the market with the first change for the better in industrial conditions.

There are in the market a considerable number of foreign inquiries for pipe, but the demand will not be translated into orders until freight rates from this country are lower.

Annual report of the company, to be issued in a few weeks, is expected to show earnings between 9% and 10% on the preferred stock against 11.18% earned in 1917.

These earnings are after all allowances for taxes and other charges, which, naturally, were heavier in 1918 than in 1917.

Westinghouse Electric Rapidly Reaching Peace Basis

Rapid readjustment to a peace basis is being made. Orders for equipment from private interests which were thrust aside in favor of Government work are now being received in heavy volume. So pressing is the demand for finished material at the East Pittsburgh plant that the employees there have been working nine and one-half hours daily, drawing time and a half for the extra 90 minutes.

A high official says there are on hand and in sight sufficient orders to keep the entire East Pittsburgh works busy for five year or more.

Plants located at Pittsburgh, which were making war materials exclusively, have been shut down for a time, but the men employed there have been given work in East Pittsburgh. Outside buildings were leased for the shell contracts so that suspension of work at these establishments in no way curtails the company's normal business.

THE SEARCHLIGHT (Second Series)

The Searchlight editor is making a special study of promotions, past and present, with the view to presenting the salient features to our readers so that they may clearly recognize the "earmarks" of a *promotion* as distinguished from a legitimate development enterprise. The title of this second series, "The Gold Bricks of Spanish Castles," suggests that the superstructure of a promotion is built on a foundation of sand from its very inception, and the author will show how promoters whose intentions are doubtful betray themselves by their literature, circulars, and promises that never materialize.

The research work for such a series is very extensive, and it is intended to present the facts and conclusions to be drawn commencing with our next issue. We believe the series will prove to be instructive as well as entertaining.

PUBLIC UTILITY NOTES

American Tel. & Tel. Earnings Estimated at $10 a Share

President Theodore N. Vail estimates that for the year 1918 net earnings were over $54,500,000. Allowing $10,390,000 for interest, this leaves a balance of over $44,110,000 available for dividends on the stock, or approximately $10 a share. If this is the case, dividend requirements are earned by a fair margin.

Brooklyn Rapid Transit Earns $1.99 a Share

Report issued for the year ended 1918 showed a surplus after charges and taxes of $1,483,816, equivalent to $1.99 a share on the $74,455,159 capital stock, as compared with surplus of $5,079,308, or $6.82 a share, in 1917.

Nicholas F. Brady, chairman of the board of directors, in the report issued to the stockholders at the annual meeting, stated that the cause for the receivership was lack of capital funds, both for meeting outstanding construction and equipment obligations and for continuing plans for improvement.

He added:

"It is to be expected that the system's financial operations will now grow better rather than worse as transportation conditions become more normal, and there is no doubt in the minds of your directors as to the earning capacity of the system, provided justice is done by the public authorities in the matter of fare."

Con. Gas of N. Y. Shows $5.63 a Share for 1918

Annual report of the year ended Dec. 31, 1918, showed net income after interest charges and taxes of $5,702,400, equivalent to $5.68 a share on the $100,253,000 capital stock, as compared with net income of $7,741,077 or $7.75 a share in 1917. After payment of dividends there was a deficit of $1,292,393, against a surplus of $753,922 in 1917.

In his address to the stockholders at the annual meeting President Cortelyou said in part:

"By direction of the board of trustees, suit has been commenced by the company in the Federal Court to test the validity of the law limiting the price of gas to 80 cents per thousand cubic feet.

"Under this rate the company was scarcely able to earn during the year 1918 any return upon its investment in its gas business; and there is every prospect that, notwithstanding the termination of the war, the earnings will be still further impaired during the ensuing year, by the high cost of labor and material and other elements of costs.

"The labor difficulties, to which reference was made in the last annual report, continued to prevail during the year 1918 the labor 'turn over' in the manufacturing department reaching the maximum of 249.1%.

"The price of practically all materials and supplies used by the company was higher in 1918 than in 1917, the total increase in the operating expenses of the company alone, (not including subsidiaries), amounted to $2,679,-216."

Louisville Gas & Electric vs. City Dispute

Natural gas situation in Louisville, where a fight has developed between the company and the city administration over the proposal to supply local consumers with a mixed product, to prevent a threatened shortage of natural gas from the West Virginia field, has had one important result. Experts have been brought into the Kentucky field to make an investigation, revealing the fact that there is an enormous undeveloped gas reserve in the eastern Kentucky field, to which Louisville eventually must look for its supply.

Offer of Additional Stock Causes Ohio Cities Gas to Decline

The recent decline in the company's stock would seem to indicate a fear on the part of some investors that the sale of additional stock might interfere with the payment of the usual dividend of 20% ($5) a share annually.

Public Service of N. J. Increases Capital

Arrangement has been made for an issue of $50,000,000, 8% cumulative preferred stock and the sale of $12,500,000 gold collateral three-year 7% notes to meet collateral notes about to fall due and other unfunded and floating indebtedness. This course was decided upon by the directors when the problem of obtaining enough funds through an increased fare seemed out of the question.

Valuation of Twin City Rapid Transit Minneapolis Properties

Special committee on street railways of Minneapolis City Council has recommended that valuation of the Minneapolis Street Ry. properties, placed at $24,346,113 by C. L. Pillsbury, engineer, be accepted. This is the most favorable development for some time in the affairs of the Twin City Rapid Transit Co., as it indicates that the council is making ready to take up the matter of renewal of the company's franchise, which expires in 1923, and on which it was impossible to get action under the former city administration.

Valuation made by City Engineer Cappalen was $25,014,307, and the company placed the figure at $30,712,000. The committee also is in favor of granting the company 7% on valuation agreed upon in the event that a division of earnings with the city becomes a part of the franchise as eventually granted.

OIL NOTES

Atlantic Refining Continues Development Work in Mexico

Through its subsidiary, the Atlantic Oil Petroleum Co. an oil producing company quired full ownership of the Panuco-Boston Oil Co., operating in Mexico. It previously owned 51% of the $1,000,000 Panuco-Boston Oil stock. This company has made extensive development work in this part of the country.

The arrangement with the Port Lobos Petroleum Co., an oil producing company in Mexico owned by the James B. Duke interests, has resulted in an additional supply of oil. The arrangement also has made possible the rapid development of the Port Lobos Company.

Atlantic Refining is one of the companies which will benefit by the recent stock dividend ruling, which may allow corporations to declare stock dividends without subjecting stockholders to the income tax. The surplus at the close of 1917 was $45,000,000, as against a capitalization of $5,000,000.

California Petroleum Brings in Two New Wells

Two new wells, which run approximately 2,000 and 1,500 barrels each, have been brought in on the Montebello field in California. This brings the total production in that field up to 6,000 barrels, with two more wells being drilled in the same district. This field is comparatively new and one of the best that has been developed in California in recent years.

Commonwealth Refining Contracts for 1,000 Barrel Refinery

A contract has been let to the McMahon Construction Company of Tulsa, Okla., for the construction of a 1,000-barrel oil refinery. According to the terms of the contract the plant is to be finished and ready for operation March 15, 1919.

Continental Refining to Increase Capitalization

Stockholders have been asked to approve an issue of $500,000 first mortgage bonds and an increase in common stock from $1,000,000 to $1,500,000. Common dividends at the rate of 12% a year will be paid quarterly, it was said, instead of monthly, in the future. Cash dividends at this rate will be resumed in April, 1919, instead of scrip dividends now being paid.

Humble Oil & Refining Increases Capital

Notice has been sent to stockholders proposing an increase of capital from $4,090,000 to $8,200,000 and the sale of $4,100,000 of the new stock for a fixed sum to interests not mentioned. On the basis of the $20,000,000 figure this would mean about $500 a share for the new stock. The form of proxy specificially provides that stockholders, in approving the increased capital, waive all rights to purchase any of the new stock.

One half interest is owned in the Wilson refinery in Oklahoma with charging capacity of 1,000 barrels daily and a refinery with 1,800 barrels daily capacity.

A recent production of 16,000 barrels a day was distributed as follows: Gulf Coast 10,000 barrels, North Texas (Ranger field) 3,000 barrels, and Oklahoma 3,000 barrels. It has large holdings in various counties of the Ranger field, Humble Goose Creek, and Sour Lake districts of the Gulf Coast field, and in Healdton and other parts of Oklahoma.

Earnings for International Petroleum Equals 14.91%

The report for the year ended 1918 showed earnings of $1,009,017, or 14.91% on the outstanding stock. In 1917 earnings showed $905,614, or 13½%. The balance sheet shows assets (property) of $5,532,000, against $6,223,000 in 1917. Other investments showed an increase from $346,000 to $1,247,000, and inventories increased about $700,000.

Negotiations have been in progress with the Government of Peru for several years, through which is hoped to secure a settlement of certain questions raised by the Government as to the amount of mining taxes which the Peruvian Government is to impose upon the company. An arrangement has been entered into to submit the question to international arbitration. In the meantime the company is continuing to pay an export tax based upon the price of Pennsylvania crude at the wells.

Island Oil Ships 1,599,126 Barrels of Oil in 1918

Shipments have amounted to 1,599,126 in 1918, representing deliveries of oil from the Palo Blanco station in the seven months ended December 31, 1918. From January to June, 1918, no shipments were made, as the pipe line and loading station were not completed. In that month 77,087 barrels were shipped, while in December deliveries to tankers reached 490,755 barrels.

The present pipe line from the well on Lot 8, Tepetate, has a capacity of 15,000 barrels, and it is expected that this will be augmented by another pipe line. A branch line will also be laid from the new 100,000-barrel well in Chinampa, to either the present line or the new line. Materials for this branch line have been purchased. With the release of tankers after the armistice was signed, the pipe line increased to 13,000 barrels, as against less than 7,000 barrels daily from May to November. During the seven months in which shipments were made, twenty-four tankers were loaded at Palo Blanco.

Lone Star Gas to Construct 16 Inch Pipe Line Into Texas Field

Arrangements have been completed for the construction of a natural gas 16 inch pipe line into a field west and southwest of Fort Worth, Texas. This will largely augment the present capacity of the company.

Mexican Petroleum's President Emphasizes Guarding of Interests

The National Association for the Protection of American Interests in Mexico, headed by E. L. Doheny, President of Mexican Petroleum, have sailed for Paris for the purpose of reiterating the necessity of concerted action on the part of the large oil, mining, commercial and banking interests, that have an investment of approximately $2,000,000,000 at stake.

Pierce Oil's Income for Eight Months Ended Sept. 1, 1918, Equalled $2,963,688

Trading profits for the eight months period ended Sept. 1, 1918, was equal to $4,426,537. After all deductions the net was equal to $2,963,688. Assets consist of oil lands, etc., $31,871,823; cash, $848,557.

The suit against the city of Hope, Arkansas, for an injunction restraining it from enforcing its ordinance regulating the storage of petroleum, gasoline, etc., has been lost.

Sinclair Gulf Building a 20,000 Barrel Refinery

The first unit of the 20,000 barrel capacity refinery is expected to be completed within three months. This refinery is located on the Houston canal about twelve miles east of Houston, Texas. Work on this plant has been progressing more rapidly than was expected.

Concrete wharfs have been built on the water side while several lines of railroad are on the south side of the property, which has direct connection with the Houston Belt Line that circles the city and connects with all railroads.

Standard Oil of California Finds High Gravity Oil in Elk Hills

Thirty-nine degree oil was struck in the southeastern part of Elk Hills. Thus far this is the lightest product in the state. The well was cemented for water-shut-off at 2,480 feet and, when opened, was found to contain 100 feet of oil. The well is not so important to the company because it was drilled on a school lot surrounded by Naval Petroleum Reserve No. 1, but it is exceedingly important as tending to prove the district, which has long been in doubt.

After the creation of the reserve by the Taft withdrawal order, the Government sought to obtain possession of 6,109 acres in this field belonging to the Southern Pacific Company. Geologists were called in on both sides and it was in evidence that the Southern Pacific Company had drilled some dry holes, but the Government experts contended that the petroleum stratum was at a depth of 4,000 feet.

The discovery of oil cannot help but impart value to the large acreage owned in this field by the railroad. The land is involved in the consolidated suit now pending in the United States Supreme Court.

Standard Oil of N. Y. Raises Price of Export Oil

Advances have been made in the price of refined oil for export to the extent of one cent per gallon. This increase has been in effect since January 28, 1919.

Texas Company Will Issue New Stock Every Year

A director has been quoted as saying: "It is the settled policy of the company to issue new stock for the benefit of old stockholders once a year. While amount and date of next issue will not be determined for some time, since last issue has just been made, fresh certificates will be issued during the current year.

"The company's boats have been returned, except one, and that one is on its way. Foreign business is good and on the increase.

"Strength in the stock is quite in order following the big well brought in recently in Texas. The well was discovered a short time ago and is of high grade oil. It appears to be inexhaustible."

Ventura Consolidated Produced 87,993 Barrels in December

With the production of 87,993 barrels of oil in the month of December, production reached a total of 890,734 barrels for the year of 1918, which shows an increase of 246,485 barrels, or 40% over 1917.

This expansion in production is the reflection of extensive developments that for the past 12 months have been under way in the South Mountain oil field of California. There are now 13 wells in this district, of which 9 are completed and flowing at the rate of 450 barrels a day each.

A new refinery has been completed which to date represents an expenditure of $1,375,000. It has a capacity of 3,000 barrels of crude oil per day, 1,000 barrels of which are "topped" and converted into gasoline.

MINING NOTES

Alaska Juneau Stockholders Authorize Bond Issue

At the stockholders meeting held January 10, 1919, it was voted unanimously to authorize the $3,500,000 bond issue, practically set forth in a letter issued by President Bradley. The bonds will be sold privately to the stockholders who have confidence in the property.

American Smelting Cuts Dividend

Directors have declared a quarterly dividend of 1% as compared to a declaration of 1½% in the previous quarter. This came as a general surprise to the financial district which thought that a declaration of the previous quarter would be maintained. The price of lead has also been reduced from 5½c to 5¼c.

Anaconda's Production Declines 6,000,000 Pounds

Copper production for the month of January amounted to 15,900,000 lbs. as compared to 21,900,000 in the month of December, 1918. The decrease of 6,000,000 lbs. was due to the drastic curtailment of operations which were put in effect the first week in January. The total for January represents a curtailment of 50% of the maximum capacity of the mines.

The Great Fals and Anaconda Smelters have reduced wages of the employees. No trouble is expected from a majority of the men now at work although the metal trades unions are expected to balk at wage reduction. A strike declaration by the miners of the I. W. W. union who has not been working for some time is expected but this radical organization action will carry no weight.

Arizona Commercial Not to Curtail Operations

During the first half of January, 1919, production equalled 2,653 tons of ore that averaged about 7% copper. Operations at the beginning of the month appeared as though a record production would be obtained, but due to trouble at the Old Dominion concentrator, shipments had to stop for a few days. This will probably result in keeping production for the month inside of 5,000 tons of ore, but assuming the average maintains for the full period at 7% copper, the output will be over 600,000 lbs. It is not the intention of the management to curtail operations in a large way at present.

Butte & Superior Modification of Injunction Denial

Federal Judge Borquin has denied the motion for the modification of the injunction restraining it from using the oil flotation process of the Minerals Separation Company. This leaves the status of the case unchanged pending the decision of the United States Superior Court.

Calumet & Hecla Plans Construction Work.

In the spring, construction work will be commenced on the enlargement of the flotation operations at the stamp mills, extending them to three times present capacity. As much labor will be used as possible.

There has been little complaint made by the employees because of the cutting down the working days from 26 to 21 days per month and the elimination of overtime. There has been no reduction in wages and general efficiency is noticeably improved. The men are posted on the metal situation and understand that their salvation is a restricted copper output.

Candalaria Mines Ship 60 Tons of Silver Weekly

Silver shipments from the Lucky Hill properties in Mineral County, Nev., are reported as being maintained at the rate of 60 tons weekly, and with values averaging from $28 to $46 to the ton. This ore is reported as obtained exclusively from development work on an eight-foot face of $28 ore on the 100-ft. level, and an 11-ft. face of richer ore on the 200-ft. level.

Chief Consolidated's Earnings Decline

Earnings for the third quarter ended Sept., 1918, showed a reduction from the previous quarter, resulting from lowering in grade of ore shipped and higher smelting and mining costs. Development costs were increased largely, owing to the sinking of a new shaft and exploration by diamond drilling.

Chino Copper Produces 4,241,000 Lbs. in January

Production for the month of January equalled 2,241,000 lbs. as compared to 5,508,000 in December. It can be readily seen that the curtailment of operations has been very effective. The drop in production amounted to about 700,000 lbs.

Dome Mines Show a Surplus of $263,929

The report covering the first nine months of 1918 showed a surplus of $263,929 as compared with $561,948 in the same period of previous year.

At present conditions are not such as to warrant planning the immediate resumption of milling though they are altering rapidly. The estimated ore reserves remain at 1,950,000 tons valued at $9,945,000.

January Output for Inspiration Copper Totals 6,500,000 Lbs.

Production for January totaled 6,500,000 lbs. as compared with 7,350,000 lbs. in December and 7,500,000 in November. This production shows the gradual decrease which was to be expected from the curtailment of operations due to the decrease in demands for copper.

Mass. Consolidated Reduces Wages

Employees have been notified by the management that after January, 1919, miners will be paid at the rate of $4 a day and trammers and unskilled laborers $3.75 a day, a reduction in both instances of 75c from the wage scale was in effect since October, 1918.

For some months the company has been operating at much less than capacity.

The present payroll shows a reduction of over 30%. Instead of further curtailment the management thinks it wiser to order a reduction in wages.

In 1918, production amounted to 3,850,000 lbs. of copper compared with 3,984,616 lbs. in 1917.

Miami Copper Produces 5,273,260 Lbs. in January

Production amounted to 5,273,260 lbs. copper in January, 1919, as against 4,989,435 lbs. in December, 1918. This shows no curtailment of operations.

Mines of America Plans Resumption of Operations in Mexico

Plans have been completed for raising working capital with which to resume operations in Mexico. The assets will be sold to Dolores Esperanza Corporation, which will have outstanding 864,802 shares of stock, the same as Mines of America.

Stockholders are entitled to subscribe for one share of new stock, upon payment of $2 and depositing one share of stock of the old company. The reorganizaton plan has already been underwritten and the underwriters will take such shares of the new corporation not subscribed for by stockholders of the old company.

Seneca Copper Interested in Development Work

The most interesting development work that has been in progress for some time in the Lake Superior copper mining district is at this property. Sinking will not be resumed for about ten days, owing to the fact that at least 200 feet of concrete work is under way in the shaft. This is being done in making the turn as the shaft enters the formation. The concrete is necessary as a matter of safety for continued operations and as it will facilitate hoisting in the permanent shaft.

No cut, as yet, has been made through the Kearsearge lode, in fact it is only half way through. But the shaft is going down at such an angle that the lode will likely show better than 100 feet from foot to hanging. The lode is showing good average commercial grade of rock.

Temiskaming Shows $135,395 Profit for 1918

The annual statement for the year ended 1918 reports assets as $870,114, compared with $835,342 in 1917. During 1918, the profit was $135,395, but as the mill is shut down the earning power was naturally reduced. The earnings for 1918 were $425,014, of which $368,724 came from ore sales. Operating expenses were $261,831, of which $96,836 went for exploration and $42,198 for mining. Total assets are now $3,893,463, of which $2,427,802 is in properties. It is interesting to note that of the current assets of $870,000 no less than $700,000 is in Victory bonds. The capital stock stands at $2,500,000. In view of the large undisturbed profits, there have been not a few inquiries as to when the company would declare a dividend.

Tenn. Copper Receives About $10 a Ton for Its Sulphuric Acid

About $10 a ton is being received for its acid, under a readjustment of the sulphuric acid contract which it has with International Agricultural corporation and which expires early in 1920.

Up to Aug. 1, 1918, under the old contract then in force, acid deliveries were made at a price of $4.81 per ton. As modified, the contract fixes the price of the first 175,000 tons at the old price of $4.81 per ton, the next 50,000 tons at about $9 per ton and all in excess of 225,000 tons at $10 per ton, according to best information available, no official statement of the actual terms written into the new contract being obtainable.

Utah-Apex Reduces Force of Men

The management and that of Boston Consolidated have been reducing their working forces about 700 men.

This company is the principal lead producer of the camp, and has lately been rapidly reducing its forces on account of lead dropping in price from $8.05 to as low as $5.75 a hundred pounds. It is stated that 300 men have been laid off at this mine, which reduces its working forces to the minimum.

At the Boston Consolidated Mining Co. about 400 men have been let out.

Utah Copper at About 40% of Normal

It is understood that about 900 men have recently been let out and production is now about 40% of normal. With the surplus of copper about 1,000,000,000 lbs. this curtailment is in order. It is hoped that within a short time production will be increased.

Butterworth Judson Issues $500,000 Preferred Stock

Directors have sold to a syndicate which handled the underwriting of its stock an additional block of $500,000 of the original issue of preferred at par, stating that no one connected with the company except the directors ever heard anything about the matter. This point was brought out at the annual meeting. It appears that the syndicate which handled the stock contracted to place the issue of $2,500,000 preferred at par, but that only $2,000,000 was disposed of. Some time in the summer of 1918 the syndicate was called upon to complete its contract and was forced to absorb the remaining $500,000 at par, receiving for its $500,000 5,000 shares of 7% cumulative preferred stock, upon which no dividends have been paid.

Canadian Car & Foundry Assets $180 a Share

President Curry, at the annual meeting, said that the appraisal of the company showed value behind the preferred stock of $180 a share, exclusive of the arrears of dividends, and $120 on the common stock.

Emergency Fleet's Revision Does Not Affect Cramp

The Emergency Fleet Corporation's proposed revision of shipbuilding in no way affects the plant of this company, since, with one exception, all their contracts are with the Navy Department. The one contract is with the Emergency Fleet Corporation, and the keel for the ship has already been laid.

Gillette Safety Razor Outlook Promising

The report for 1918, when published, is expected to be a brilliant one. The new $500,000 plant is said to be nearing completion. It is estimated that the production of razors last year was in the vicinity of 1,600,000 and about 11,000,000 razor blades.

There are less than $4,000,000 6% notes outstanding, for which 60,000 shares of stock are held in reserve for conversion. The earnings in 1917 were $4,603,783, and it is believed the total earnings for 1918 will show better than $6,800,000, or over $34 a share, after allowing for estimated taxes.

Hupp Motor Expects Capacity Production by Summer

Production has been increasing rapidly, and during the last half of January, passenger car output averaged forty daily, a figure which will undoubtedly be bettered in the near future. A total output of 1,300 to 1,500 is expected by April 1.

Estimates for the entire year's production run as high as 15,000 cars. If realized this will represent a gain of about 5,500 over the production of 9,500 in 1918. Orders now on hand for export and domestic trade are in excess of 1,200 cars.

National Ice & Coal Has 350,000 Tons in Storage

Two large companies, American Ice and this company, are said to be the only companies which now have a surplus of ice in storage. This was brought about by the efforts of the State authorities more than a year ago, when the harvesting and storing of natural ice was accelerated in order that artificial plants could be closed to save ammonia for other purposes. This condition resulted in the two companies harvesting about 2,000,000 tons of ice in the winter 1917-1918.

There are now about 350,000 tons of natural ice in storage, this being the surplus which was not sold last summer. The company disposes of about 600,000 tons each season, and the balance will be made up with artificial ice.

Two new artificial plants are being constructed in New York city, which will be completed by June 15, 1919. These plants will have a daily capacity of 200 tons each.

Submarine Boat Works on New Deisel Engine

Work is in progress on the new pattern Deisel marine engine of 1,800 horse-power, which, if proven satisfactory, will be placed in some of 150 cargo vessels being built for the Shipping Board. This is the first attempt of the company with the Deisel engine for its ships.

Dividends on United States Steamship Deferred

While the income of the subsidiaries in the last six months was $2,204,753, or almost six times the usual bi-monthly dividend requirement at the rate of 1% regular and ½ of 1% extra, the uncertainties of the steamship and shipbuilding situation have decided the directors to defer action of the dividends to the next meeting. Normally the next dividends would have been paid March 1. The next meeting of the directors is scheduled for February 25, 1919, at which time in all probability the dividend question will be discussed.